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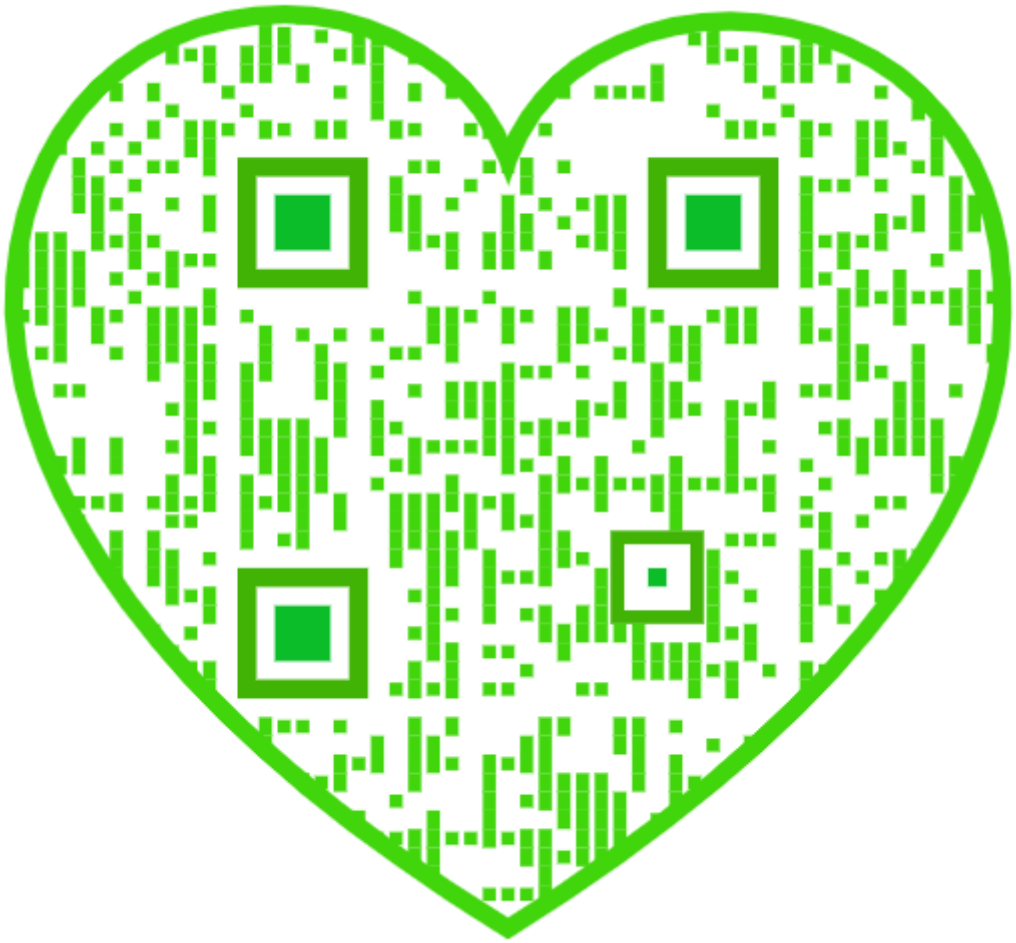

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A SYNOPSIS

OF THE FIRST THREE BOOKS OF

JOHN STUART MILL'S

PRINCIPLES

—OF—

POLITICAL ECONOMY.

AS REVISED BY PROF. J. L. LAUGHLIN.

WITH AN APPENDIX CONTAINING THE RECENT EXAMINATION PAPERS IN POLITICAL ECONOMY I.

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Cambridge, Mass.
PUBLISHED BY W. H. WHEELER,
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This Synopsis is intended to replace the text book in preparing for the examinations, but it will also be found extremely useful during the year in answering the weekly written questions. The index at the end has been prepared especially for use in connection with the examination papers contained in the appendix to this book, and in the second appendix to the text book.

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A SYNOPSIS OF MILL.

BOOK I.

ON PRODUCTION.

CHAPTER I.

REQUISITES OF PRODUCTION.

1. Labor.
2. Appropriate natural objects.
3. Capital (needed as soon as time enters into consideration, or division of labor is introduced).

Labor is either bodily or mental.

Laborer's *sacrifice* = abstinence of capitalist.

When a thing is practically unlimited it has no exchange value. p. 54.

Production requires
- 1. Natural agents (land).
- 2. Labor.
  - 1. Direct (baker of bread).
  - 2. Indirect.
    1. In producing *materials* (miner, farmer, miller).
    2. In producing *implements* (oven maker).
    3. For *protection* (police).
    4. For *transportation* (teamsters, railway men).
    5. In *training* human beings (teachers).
    6. *Inventors* (improvers of ovens & flues).
- 3. Subsistence during operation—Capital.

The previous employment of labor is indispensable to every productive operation. p. 57.

A capitalist has a right to demand a reward for his *abstinence* from consuming the products of labor in his possession.

CHAPTER II.

UNPRODUCTIVE LABOR.

Labor is indispensable to production, but has not always production for its effect. Much very useful labor is unproductive. p. 60.

Productive Labor Creates Wealth.

Unproductive Labor does not Create Wealth.

It is hard to distinguish between productive and unproductive laborers, because much labor is indirect. p. 60.

Productive labor may be wasted, when more is expended than is necessary to production.

PRODUCTIVE CONSUMPTION is the wealth consumed by productive laborers in keeping up, or improving, their health, strength, capacity for work, or in rearing productive laborers.

All their consumption beyond this is unproductive consumption. Some enjoyment is necessary to health.

UNPRODUCTIVE CONSUMPTION is the consumption of non-producers, and also the superfluous consumption of producers.

No labor for the use of unproductive consumers tends to enrich the community.

Only part of the product of a country is consumed productively, the rest supplies the unproductive consumption of producers, and the whole consumption of the unproductive class.

Anything which is transferable, limited, and which satisfies a want or desire is WEALTH.

The world consists of

A.	B.
Idlers or unproductive laborers. Unproductive consumers. p. 64. (Short and important).	Productive laborers, *e.g.* farmers. 1. Those producing wealth for productive consumption, ½ annual produce. 2. Those producing wealth for unproductive consumption (A) ½ produce.

CHAPTER III.

OF CAPITAL.

Capital is the accumulated stock of the produce of labor. See below.

What capital does for production is, it affords the shelter, protection, tools, and materials needed for the work; it also feeds and maintains the laborer during the process.

CAPITAL is saved wealth devoted to reproduction. pp. 66, 67.

Money only a part of capital and wealth.

Not all capital is money. Not all wealth is capital.

The conversion of wealth from an unproductive destination to a productive one causes more food to be appropriated to the consumption of productive laborers. p. 68.

The distinction between capital and non-capital lies, not in the kind of commodities, but in the mind of the capitalist; varying as it is destined to productive, or non-productive uses.

The whole of the capital of a country is devoted to production, with some limitations.

LIMITATIONS. p. 68.

1. A fund may seek productive employment, but find none to suit the possessor. It is still capital, but unemployed capital.

2. The stock may consist of unsold goods, not at the time marketable. It is then unemployed capital. This is unimportant. Goods are marketable at a low enough price. If nobody wants them they are, by definition, not wealth, and ∴ not capital.

3. A tax payable in advance may be levied. This necessitates a larger capital than is necessary to production. p. 69.

4. Rent may be payable in advance, similar to 3.

5. All the capital paid as wages is not necessary for production. Some is expended, not in supporting labor, but in remunerating it. Laborers could wait for remuneration.

Abundant capital must have been accumulated to allow any remuneration of labor before production is finished. p. 70.

See examples of capital and wealth on pages 70, 71, 72 and 73 of Mill.

CHAPTER IV.

FUNDAMENTAL PROPOSITIONS RESPECTING CAPITAL.

Industry is limited by capital.

Industry must have materials and food, both capital produced by previous labor.

Laborers consume what has been produced, not what is about to be.

Although industry is limited by capital, it does not always reach that limit. Often capital cannot obtain as many laborers as it wants.

Government can create capital by laying taxes and employing the revenue productively.

It may also use the revenue in paying the Public Debt.

The fund-holder would still wish to have an income from his money, and so would invest it productively.

Taxes are largely paid out of wealth destined to unproductive consumption.

Every increase of capital can give unlimited additional employment to industry.

If human beings are capable of work, and when there is food to feed them, they may always be employed in producing something. p. 76.

It is a common error that the unproductive expenditure of the rich is necessary to the employment of the poor.

Employment is given to labor, not by the expenditure of wealth, but by capital.

If a capitalist stops his unproductive consumption, he only transfers it to labor.

When capitalists turn their income into capital, they do not destroy their power of consumption, but transfer it to a number of laborers.

Either there is, or there is not, an increase of laborers proportionate to the increase of capital.

1. If there is. Necessaries are produced for the new population instead of luxuries for the old, and this supplies exactly the amount of employment which was lost.

2. If there is not. What was formerly expended in luxuries is now distributed among laborers as additional wages. They are already supplied with necessaries. The laborers now buy luxuries. Thus the many have them instead of the few.

The limit of wealth is never deficiency of consumers, but of producers and productive power.

Every addition to capital gives labor additional employment or remuneration.

Laborers get more by the abstention of capitalists from unproductive expenditure, than by such expenditure.

Capital is the result of saving. p. 79.

The idea of saving implies the productive use of the savings. Savings not destined to be used productively are merely hoarded, and are not capital. p. 80.

Capital, although saved, and the result of saving, is nevertheless consumed.

"Saving" does not imply that what is saved is not consumed, or that consumption is deferred; but that if consumed immediately, it is not consumed by the saver. Part goes into fixed and circulating capital, and part into wages. p. 81.

Everything which is produced is consumed, both what is saved and what is spent.

The greater part of existing wealth has been produced in the last year. Land is almost the only thing which subsists. p. 82.

This perpetual consumption and reproduction of capital explains the rapid recovery of countries devastated by war.

If the effective population is not extirpated or starved afterwards, and if the lands and permanent improvements are not seriously injured, a country can produce nearly as much as before. If the people have food enough to keep them in working condition, the country will be as rich as before, if they exert themselves ordinarily. Involuntary privation produces the same results as intentional abstinence. p. 83.

The world has at any given time the power to create a certain amount of wealth. Increased power of production allows the total wealth to be enlarged.

Labor, land, and capital are needed to produce wealth: if labor and land are intact, *all* previous capital is not needed. If necessaries and tools exist, previous wealth will be recreated.

Taxes are paid from unproductive consumption generally, and are made up by increased economy. Government loans are drawn from capital and impoverish the country.

Yet when loans are made, the country seems prosperous, the wealth and resources seem to increase. p. 84.

Suppose the whole amount borrowed and destroyed by the Government is taken from capital. It cannot be taken from fixed capital and must be taken from wages. Laborers will suffer, but if their working condition is kept up, their labor will produce as much as it would with higher wages. Their unproductive consumption is stopped. The employers gain what the laborers lose by diminished wages, and the breach in the capital of the country is repaired by the privations of the laborer. p. 85.

Dr. Chalmers says that, when the Government needs money, it is better to lay taxes for the whole amount, rather than to make interest-bearing loans.

Objection. When the whole amount is called for in 1 year, the people cannot, without great hardship, pay it out of their yearly income. ∴ It is better to require a small sacrifice yearly as interest, than a great one once for all.

Answer. The same sacrifice is made in either case. All the wealth produced yearly forms part of somebody's income. By taking the amount needed as loans instead of taxes, the privation is not averted, but is thrown on the laboring classes who least ought to bear it.

All the inconveniences caused by taxes for the perpetual payment of interest are incurred in pure loss.

Whenever the State withdraws capital from production, the whole sum is withheld from labor. The loan is paid off the same year, the sacrifice is actually made; but it is paid to the wrong persons by the worst of taxes (tax on laborers) and does not extinguish the claim. p. 86.

After having made the whole effort needed to pay the debt, the country is still charged with it and its interest. p. 86.

Objection. This statement is extreme. Loans are usually made from foreign capital which would not be brought in on less than Government security. In wealthy countries, loans are not made from native employed capital, but from accumulations which would otherwise have gone abroad. p. 87.

DEMAND FOR COMMODITIES IS NOT DEMAND FOR LABOR.

It merely determines the direction in which the productive engine, capital and labor, shall work. p. 88.

Wealth offered for commodities necessitates the use of *other* wealth as capital to support labor. p. 88.

Wealth paid as wages, or advanced to producers, itself supports labor. p. 89.

(1) Wealth offered directly to laborers employs more labor than when merely offered in exchange for other goods; (2) an increased demand for commodities does not call for an increase of labor, since this can only be created by capital.

Corollaries of 2. (*a*) When a home demand for commodities is created by legislation, it does not of itself give additional employment to labor.

(*b*) Taxes on luxuries of the rich do not fall on the poor because of a lessened demand for commodities.

When the taxes on the rich are paid out of what would have been wages,—

1. If the Government buys labor, the tax does not fall on the poor.

2. If the Government dissipates it in war, it ceases to exist as capital, and less laborers can be employed.

CHAPTER V.

CIRCULATING AND FIXED CAPITAL.

That part of capital, which, after being once used, exists no longer as capital, is called CIRCULATING CAPITAL, *e.g.* materials and wages. p. 93.

It is constantly parted with, is constantly renewed, and does its work by changing hands.

That part of capital which consists of more or less durable instruments of production, whose efficacy is not exhausted by a single use, is called FIXED CAPITAL, *e.g.* implements, buildings.

This does its work by being kept. Capital sunk in permanent improvements of land is of this kind, as the cost of making docks, roads and canals. Many kinds of fixed capital need to be renewed.

A stock of unsold goods is (although destined to productive uses) *not capital in actual use.* It must first be exchanged, and will become either fixed or circulating capital.

All increase of fixed, at the expense of circulating capital hurts the laborers.

Some say that machinery never injures the laborers. p. 95.

Argument. By cheapening production it increases the demand for the commodity, and more persons are employed in producing it. True, often, because more capital of both kinds is employed. p. 96.

Objection. Laborers no better off by the *transfer* of capital from *circulating* to *fixed.* Laborers suffer in the industry whose fixed capital is increased.

Argument. Equivalent employment is offered in other industries to the labor thrown out of employment by machinery, because consumers save in the cheapened commodity enough to increase their demand for others.

Objection. A demand for commodities is not a demand for labor. p. 97.

Improvements in production are seldom even temporarily injurious to labor.

If many improvements were made suddenly, the fixed capital would be drawn from the circulating. This would injure laborers. Improvements are introduced gradually by the use of annual increase.

Great increases of Fixed Capital are always accompanied by corresponding increases of Circulating Capital.

Even if improvements tended to diminish the aggregate produce and circulating capital, by causing increased accumulation they would finally increase both. p. 98.

Improvements tend to remove the limits of accumulation of capital and of increased production from land.

Argument in favor of Machinery.

The quantity of capital and the gross produce of a country are proportionate to the state of the arts of production there. Machinery makes room for a larger amount of both. p. 99.

CHAPTER VI.

CAUSES OF THE EFFICIENCY OF PRODUCTION.

The most evident causes of superior productiveness are,—

1. Natural Advantages.
   - *a.* Fertility of the soil.
   - *b.* Favorable climate.
   - *c.* Minerals.
   - *d.* Good communication.

In hot regions mankind needs less fuel, clothing, housing, food. Abundance of conveniently situated minerals is a great advantage. A maritime situation, or good navigable rivers, is a great advantage by saving the cost of carriage. p. 100.

2. Great and habitual energy of labor.

3. The extant state of skill and knowledge.

The production of a people is limited by their knowledge of the arts; any improved application of natural forces enables the same labor to produce more.

Want of good sense, which makes laborers such bad calculators, renders their labor less productive.

4. The moral qualities of the laborers. p. 101.

e.g. The temperance, steadiness, trustworthiness of laborers.

5. The security or completeness of the protection furnished by society to its members.

6. Habits of cooperation and division of labor.

Sometimes a number of people must cooperate, as in rowing boats. p. 102.

Without separation of employments, few things would be produced at all, for if each person had to produce all he consumed, his wants would be few.

By division of labor a population is stimulated to increase its production so that it can obtain luxuries, which it never could have obtained otherwise, because it never could have produced them. The introduction of mechanics among an agricultural population constitutes a market

for surplus food. Their arrival enriches the settlement; (*a*) by the manufactured articles; (*b*) by the increased production of food.

A country seldom has a productive agriculture without a large town population.

The farther the division of labor is carried the more productive does it become.

CAUSES OF THE INCREASED EFFICIENCY OF LABOR BY DIVISION OF EMPLOYMENTS.

1. Increased dexterity in the workman. p. 105.

When a thing is done frequently, it is not done *better* necessarily, but *more easily.*

2. Saving of time in passing from one employment to another.

This is somewhat counterbalanced by the rest given by a change of occupation, as different muscles are used.

3. Inducement to invent labor-saving machines. p. 106.

The attention of laborers is directed toward saving of labor. Not always true, as inventors have often invented in lines very remote from their own employment.

4. The more economical distribution of labor by classing laborers according to their capacity. p. 107.

5. Effectiveness of industry is proportionate to adaptation of person to employment, and of industry to locality. p 108.

EVERY INCREASE OF BUSINESS ENABLES THE WHOLE TO BE CARRIED ON AT A PROPORTIONALLY SMALLER COST.

This can be determined by test. Whenever large and small establishments exist together, the one which produces most cheaply will undersell the other. p. 109.

The time of the manager is saved, *i.e.* fewer superintendents are required in a large business than in many small ones. p. 110.

Production on a large scale is facilitated by the forming of joint stock companies.

(*a*) Because many undertakings require more capital than individuals could furnish. Government agency is inexpedient.

(*b*) A more intellectual head can be secured. p. 111.

Objection. A large system is only advisable when there is a large market.

CHAPTER VII.

LAWS OF THE INCREASE OF LABOR.

The increase of labor is the increase of mankind, which has immense powers of multiplication. p. 112.

It increases in a geometrical ratio, and can easily double every 20 years. p. 115.

LAW OF MALTHUS.

POPULATION TENDS TO INCREASE FASTER THAN THE MEANS OF SUBSISTENCE.

Opposing Forces.

Population is kept down by

1. Absolute starvation in times of scarcity. This is the "Positive Check."

2. (In a higher state of Civilization.) Limitation of births. "Preventive Check."

Caused by
- *a.* Fear of want.
- *b.* Desire to better or maintain present condition.
- *c.* Limitation of marriages by the State.
- *d.* Limitation of marriages by customs of living.

IMPROVEMENTS IN THE CONDITION OF LABORERS ONLY GIVE A TEMPORARY MARGIN, SOON FILLED UP BY INCREASED NUMBERS. p. 118.

To get a happier, not a more numerous people:

1. They must be intellectually and morally educated; or,

2. The standard of living must be raised. p. 119.

Small holdings limit the thoughtless increase of numbers. France for example.

CHAPTER VIII.

LAWS OF THE INCREASE OF CAPITAL. p. 120.

Increase of capital depends upon

1. The amount of surplus wealth over necessaries.

2. The strength of the desire to save, which is less:—
   (*a*) In unhealthy climates and occupations, *e. g.* sailors.
   (*b*) In insecure localities, *e. g.* Burmah.
   (*c*) Because of want of appreciation of future good from present sacrifice, *e. g.* St. Lawrence Indians.
   (*d*) Because of want of interest in others, *e. g.* Later Rome.

After necessaries of production are supplied a surplus is left from which must come:—

1. Unproductive consumption of producers. (Savable.)
2. Subsistence of unproductive consumers.
3. Additions to capital. p. 121.

Corollaries.

1. The greater the produce, the greater the possible saving. This also partly determines how much will be saved for:—
2. The greater the possible profit, the stronger the motive for accumulation, other things being equal. p. 123.

Corollaries.

(1) *All accumulation involves the sacrifice of a present for a future good.* The ability to see that the future good is greater than the present sacrifice is the test of civilization.

(2) *Whatever strengthens probability that our accumulations will be enjoyed by ourselves or friends strengthens the effective desire of accumulation.*

a & b. Unhealthiness and insecurity diminish the probability that we shall enjoy what we save. p. 124.

c. Uncivilized races will not work when the returns are distant, because they cannot see that the gain is greater than the trouble.

(3) Durability marks a high degree of effective desire of accumulation. Chinese build frail houses, etc. They work when returns are distant, but not when very distant. Defect of providence, not of industry, limits production among Chinese. p. 125.

STATIONARY STATE.

When production has been carried so far that the returns from capital hardly satisfy the average effective desire of accumulation, the country is in the stationary state. No additions to capital will be made, unless the arts of production increase, or effective desire strengthens. p. 127.

No more capital can be employed at the existing rates of interest, and no more capital will be accumulated to be employed at lower rates.

There is no limit to the possible increase of labor and capital, the limit depends on the properties of land.

CHAPTER IX.

THE LAW OF THE INCREASE OF PRODUCTION FROM LAND.

Land is limited in quantity, and in productiveness.

THE LAW OF DIMINISHING RETURNS. p. 130.

AFTER A CERTAIN NOT VERY ADVANCED STAGE IN AGRICULTURE, AN INCREASE OF LABOR DOES NOT INCREASE THE PRODUCE IN AN EQUAL DEGREE. p. 131.

This is the foundation of political economy. This law has not set in when more labor and capital are needed to give all the land its maximum product. p. 132.

When inferior land (*i. e.* land which with equal labor gives less produce) is resorted to, the produce, evidently, does not increase proportionately to labor. Land is inferior in fertility or situation.

Transportation is part of the cost of production.

Produce from inferior lands costs more, and the price increases. If it were not for the law of diminishing returns inferior lands would never be used.

Sometimes an immense increase of labor and capital on *cultivated* lands brings *more* than a proportionate increase. p. 135.

Actual facts do not give the expected results because of opposing agencies caused by the progress of civilization, namely,

THE PROGRESS OF AGRICULTURAL SKILL, KNOWLEDGE, AND INVENTION.

Agricultural improvements are of two classes.

1. Those which increase the produce without increasing the labor in proportion.

a. Rotation of crops, with the disuse of fallows.

b. The introduction of new valuable plants, *e. g.* turnips, which enter into rotation with great advantage.

c. Introduction of new articles of food, *e. g.* potatoes.

d. Introduction of new manures.

e. Increased knowledge of the application of manures.

f. Improvements in the soil itself by subsoil ploughing and draining.

g. Improvements in the breeding and feeding of working cattle. p. 136.

h. Increased number of waste-eating food-producing cattle.

2. Those which diminish labor, but do not increase productiveness.

a. Improved construction of tools.
b. Use of machinery which saves labor.
c. Improvements in transportation.
d. Improvements in manufacturing processes. p. 138.

Thus railways and canals diminish cost of production. p. 140.

The materials for manufactures come from the land, ∴ the law of diminishing returns applies to manufactures. But:—

The cost of materials forms but a small part of the cost of manufactured articles. Labor-saving machines increase with immense rapidity ∴ p. 141.

The causes of increased productiveness prevail over the law of diminishing returns in manufactures.

This is shown by the fall in prices. p. 142.

SECONDARY CAUSES OF INCREASED PRODUCTIVENESS IN MANUFACTURES.

1. Improvements in Government and morals.
2. Improvements in education.
3. Improvements in general character of laborers.
4. Community of interest between labor and capital.

THE LAW OF DIMINISHING RETURNS APPLIES TO EXTRACTIVE INDUSTRIES. p. 143.

RESUME OF CHAPTER IX.

All limited natural agents, long before their productive power is stretched to the utmost, yield to additional demands on harder terms. This law is suspended by anything which adds to the human knowledge of the properties and powers of natural agents.

CHAPTER X.

THE CONSEQUENCES OF THE PRECEDING LAWS.

The limit to increased production comes from,

1. Lack of capital. 2. Lack of land.

In countries where effective desire of accumulation is low, industry must be stimulated by improvements in production.

In countries where it is high, the increase of capital is checked by smallness of returns. p. 145.

The tendency of returns to progressive decrease lowers the condition of producers, and would soon stop increase of production. It is a consequence of the law of diminishing returns. p. 146.

Corollaries.

A large number of people can never be as well off as a small number.

The laws of *nature* not *society* cause misery from over population.

An unjust distribution of wealth causes the evil to be felt earlier, but does not aggravate it.

New mouths need as much food as the old, and the accompanying hands do not produce as much as the old ones. p. 146.

After the density of population is sufficient to insure all the benefits of combination of labor, further increase tends to lower condition of people, but improvements counteract this. p. 148.

Improvements never can come up to the capability for human increase, but they have equalled the present limited increase.

If the population had been still more limited, the condition of all would have been much bettered by improvements, instead of the margin being filled by increased numbers.

REMEDIES FOR OVERPOPULATION.

When the law of diminishing returns begins to set in, and the rate of increase is still unchanged, these things will mitigate its effects.

1. Importation of Food.

The admission of cheap foreign food equals an agricultural invention at home which would reduce the cost by the same amount.

The laborer gets more food for the same labor, but the pressure soon returns from increased numbers.

Excessive over population always raises the general price of food. For food is raised on limited areas, which are not large enough to supply a great demand without great exertion; in any case, the quantity of food which can be obtained without increase of proportional cost is limited.

Two classes of countries can export,

(*a*) Countries with large effective desire, but their own increasing population must be provided for, and exporting soon ceases. (*b*) In some countries the population is less than the food and, owing to their backward state, they can export.

The law of diminishing returns applies also to food-importing lands. p. 150.

2. Emigration.

The relief from this is real, as it simply adds available land.

No stream of emigration could be kept up which would remove the excess of population over food if increases were unchecked. p. 151.

BOOK II.

DISTRIBUTION.

CHAPTER I.

PROPERTY.

The laws of production are physical truths, with nothing optional or arbitrary about them. p. 155.

The laws of distribution of wealth are solely a matter of human institutions. p. 156.

Society has always rested on INDIVIDUAL PROPERTY. Tribunals arose to repress violence, and called possession rightful ownership.

Suppose a body of colonists in a new country, they can have either:

1. Private Property.

Land and tools would be *fairly* divided at the outset, and each individual would provide for himself. Or,

2. Community of Goods.

Everything would be held in common. Production would be managed by the magistrates. Products would be divided as the people might wish.

OPPONENTS OF INDIVIDUAL PROPERTY.

1. Those who wish absolute equality in the distribution of the physical means of life and enjoyment. "COMMUNISTS," p. 157.

2. Those who admit inequality, but wish wealth to be distributed according to justice or expediency and not by accident as now.

Socialists.

A self given name of the English Communists. On the Continent it does not imply the abolition of private property, but that governments or associations should possess the land and instruments of production.

Socialism to-day is usually applied to

Those who wish to abolish private property, and give the capital, land, and labor of a country over to State control.

Collectivism=State Socialism.

OBJECTIONS TO COMMUNISM.

1. Each person would try to avoid his fair share of work.

Answer. This evil exists anyway. A "master's eye" cannot be everywhere, but a Communist would be watched by the whole Community. Communist labor would be less effective than that of laborers working for themselves, but more effective than that of hired laborers. p. 158.

2. If every man were sure of subsistence for himself and children, prudential restraint would cease, and population would increase until starvation was reached.

Answer. Any increase of numbers which increased the toil of the masses would then (it does not now) cause immediate inconvenience to every individual. This misery could no longer be imputed to the avarice of employers or the privileges of the rich. Public opinion would force the reckless to apply the prudential check.

3. It would be impossible to divide the labor fairly, as there is no common standard between different kinds of work. p. 159.

The same quantity of work is an unequal burden on people of different physical capabilities, the feeling of justice would revolt against nominal equality of labor for persons unfit to bear it.

Communism with all its chances far better than Society AS IT IS NOW. But;—

To make a fair comparison, we must compare Communism at its best with individual property, not as it is, but as it might be made.

Private property has never yet conformed to the principles which justify it. Property has been made of things which should not be, and absolute property of things which ought to be qualified property.

Private property is defensible only when it means the guarantee to individuals of the fruits of their own labor and abstinence.

Intestate inheritance not part of the institution and often conflicts with the principles which legitimize it.

POSSIBLE DESTINATION OF PRIVATE PROPERTY.

Everything must be rectified which is opposed to the principle of proportion between exertion and reward.

We must also have:—

1. Universal education. p. 160.
2. Due limitation of population.

Without these two, neither Communism nor any other system could make the condition of the masses other than miserable and degraded. With these, there could be no poverty, even under the present system; and this being supposed, the question is, not as the Socialists say, a question

of flying to the only refuge against present ills, but a mere question of comparative advantages.

The decision will depend upon the consideration, which of the two systems gives the greatest amount of liberty and spontaneity.

SCHEMES OF SOCIALISTS.

1. Complete State control.
2. Separate communities inside the State, but under its protection.

The object of most Socialists is to have the State control the production and distribution of wealth. p. 161.

Origin of Socialism was in France, its activity is now greatest in Germany.

KARL MARX.

The only Socialist who pretended to economic knowledge.

His idea of VALUE. The amount of labor necessary to production is the sole measure of value.

The right of property in manufactures vests wholly in the laborer. Capitalists are robbers.

No just system can exist while free contract exists, therefore all property must be nationalized.

There must be absolute equality of wages (thus removing the incentive to superior skill). p. 162.

The System of Lasalle and Liebknecht.

LOUIS BLANC.

Government to establish State workshops from abolition of collateral inheritance. Private competition would be crushed. p. 162.

Communists wish to exchange the good of the present system for the evils which would result from carrying on social life without the motive power. p. 165.

Two Non-Communistic Socialist schemes are totally free from the objections to Communism. p. 166.

1. SAINT SIMONISM.

This contemplates an unequal division of produce, and that all should be occupied according to capacity and vocation.

The authorities assign the functions and also the salary due to the merits of the worker. (No human beings could do this justly.)

2. FOURIERISM.

This is the most skilful form of Socialism.

Capital and labor are both important.

No abolition of property, or inheritance.

"Phalansteries" are territorial industrial associations.

A minimum is assigned for the subsistence of the whole community. The remainder of the product is to be divided between labor, capital, and talent.

The capital is owned by the members in unequal shares, with proportional dividends.

Talent is estimated by grades conferred by the choice of fellow-workers.

Separate households living in large buildings. Co-operative stores, etc.

Objection. Such communities suffer from want of family life and of executive ability. The independence of younger members carries them away.

ATTACKS ON SOCIAL ORDER ARE VIGOROUS AND EARNEST BUT EXAGGERATED, AND IN ANSWER IT MAY BE SAID THAT ;—

1. The wages of labor in Europe are very insufficient, but it has yet to be proved that real wages, or even money wages, are declining anywhere. p. 169.

2. Socialists see one-half of competition and overlook the other. They forget that competition is the cause of high prices as well as of low.

3. Socialists do not understand the proportion of the product which goes to capital. p. 170.

Labor gets the capital, and the capitalist gets only the profit. He cannot have both.

The schemes for State management of production have a case for trial, and may eventually be preferable, but have yet to make good their claim. p. 171.

CONSIDERATIONS TO BOUND PRIVATE PROPERTY.

The foundation of private property is the right of every person to get what he can for his faculties, and to dispose of his reward as he pleases.

Bequest is right and proper, but intestate inheritance is wrong and unjust.

Bentham proposed that, if there are no direct heirs, intestate property should go to the State.

DUTIES OF PARENTS AND CLAIMS OF CHILDREN.

Parents owe to society to make children good and valuable members of it. Children ought to be provided with education

and other appliances sufficient to give them a fair chance of obtaining success by their own exertions. Every child has this claim, but has no claim to anything more. p. 172.

Land as such cannot justly be property. But:— p. 66.

If the land owed its productive power wholly to nature, and none to industry, it would be unjust to let it be engrossed by individuals. But most of the valuable qualities of land are the product of industry. The fruits of this industry cannot be reaped in a short period. Nobody will incur labor and expense unless he will be benefited. Time must be given to enjoy the improvements, and perpetual tenure is the best way to secure this. p. 173.

OWING TO THESE REASONS, PROPERTY IN LAND IS JUSTIFIED WHILE THE OWNER IMPROVES IT.

But property in land is not sacred, and is unjust if not expedient.

The products of labor should be absolute property.

Land should be property only when it produces positive good.

No quantity of moveables prevents others getting more, but the holder of land keeps others from its enjoyment. p. 174.

A man has a right to the profits from land, but he must manage it consistently with the public good. p. 175.

CHAPTER II.

WAGES.

The effects of competition are usually exaggerated, and those of custom slighted, but there are two

Agencies affecting Wages.

1. Competition, disturbed by
2. Custom.

These modify each other and produce varied results.

Competition has only recently become the governing principle. p. 176.

Competition never regulates rents or professional charges. Prices are regulated by competition, strongly in wholesale, slightly in retail trades. p. 177.

CAUSES OF THE GENERAL RATES OF WAGES.

WAGES DEPEND ON,

1. Demand = Capital (that part only of circulating capital which constitutes the wages fund.)

2. Supply = Population (those who work for hire).

The wages fund = the wages of productive and unproductive laborers. Productive wages are the larger part, so the term is employed for these.

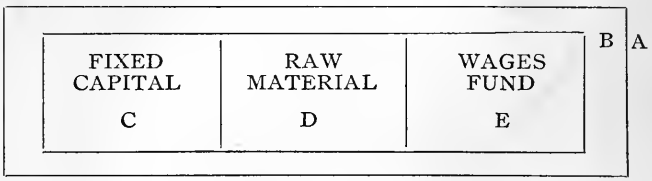
The Simple Statement of Wages Fund Theory.

Under the rule of competition, wages cannot be affected by anything except the relative amount of capital and population.

I. e. Wages rise and fall as the wages fund increases or diminishes.

This is not assented to without changes. Even Mill abandoned it. p. 179.

CAIRNES' TRUE WAGES FUND THEORY.



1. The total wealth of a country (A) is the limit of its capital (B).

The size of B depends on the effective desire of accumulation.

The wages fund can evidently never be larger than B.

B contracts and expands independently of labor bargains. p. 180.

2. Each industry determines for itself what proportion of the whole capital must go to C, D and E.

This proportion changes only with advances in machinery or intelligence.

3. Minor changes take place in these limits but do not affect the question.

OBJECTIONS TO CAIRNE'S WAGES FUND THEORY.

1. Wages are high when trade is good.

When there is a brisk demand for a commodity, more labor is needed, and wages rise.

Answer. This is not inconsistent with the theory.

All capital is occasionally idle, then it is the same to the laborer as if it did not exist. A brisk demand employs idle capital.

When capital is unemployed, wages fall.

These are temporary fluctations. p. 184.

2. High prices make high wages.

Because the capitalists make greater profits and therefore can pay their laborers more.

Answer. This can only happen if the capitalists, receiving more, save more, and thus increase their capital; otherwise, wages will be higher in the trade with a brisk demand, and lower in the rest. This cannot last long, for the superfluous capital will overflow into the other trades and restore the balance. p. 184.

Distinguish carefully between

Real wages, the quantity of commodities which a laborer obtains in return for his exertions. p. 185.

Money wages, the mere amount of money that a laborer receives, irrespective of its exchange value.

Resumé. When profits increase with higher prices, more capital will be invested in that one trade, thus there will be a demand for labor, and money wages will rise in that industry.

When we consider the relation between prices and real wages, the question differs.

General high prices would not change real wages. But if prices are higher in one trade, the laborers in that will get higher *real wages*.

3. Money wages vary with the price of food.

Answer. This is only partially true, and does not affect the dependence of wages on *capital* and happens in accordance with its laws.

Dear or cheap food caused by variety of seasons does not affect wages, except that in times of scarcity people are eager for employment and lower the market against themselves. p. 186.

But, previously known permanent dearness or cheapness of food may affect wages, for:—

1. If the laborers have only enough to support themselves and the ordinary number of children, if food grows dearer and wages do not increase, more children will die. Wages will increase because laborers are fewer than if food had remained cheap.

2. Even if wages were high enough to allow food to become dearer without depriving laborers and their families of necessaries, they *might* not wish to forego comforts, and so would limit births.

A rise in the price of food may operate thus:—

1. Wages may increase by prudential check.

2. Wages may be unchanged, but the standard of living may be lowered, and the injury may become permanent

The latter case is more frequent, and nullifies the self reparation of calamities to the laboring classes. p. 187.

Converse.

When food cheapens, wages will not fall immediately, they may even rise; but they will fall at last so that the laborer will be no better off than before, unless the indispensable standard of living has been raised. This is seldom the case, and marriages increase in seasons of cheap food. p. 188.

The condition of the laborer can be bettered only by additions to capital or by a diminished birth rate. p. 189.

Population can increase with impunity only when capital also increases immensely.

Usually either

a. The arts are stationary, and capital increases slowly.

b. Owing to a low effective desire of accumulation, the increase of capital is soon limited.

c. If neither of these occurs, the increase of capital is limited by deficiency of land.

If capital and population double simultaneously, produce cannot; — therefore,

Either wages fall, or profits fall and the increase of capital is slackened.

Only in very exceptional circumstances can population increase rapidly without lowering wages. p. 190.

RESUME.

POPULATION IS RESTRAINED EITHER BY

1. Prudence of individuals or States.
2. Disease or starvation.
3. Customs of living.

CHAPTER III.

REMEDIES FOR LOW WAGES.

VARIOUS MEANS OF KEEPING UP WAGES TO DESIRABLE POINT.

1. Fix amount of wages by law. p. 193.

This is the simplest way, and the one usually proposed. It is not intended nowadays to fix wages absolutely, but to fix a minimum and let the excess be adjusted by competition.

2. Fix wages by boards of arbitration.

These are composed of delegates from labor and capital, to adjust wages, not according to the state of the labor market, but according to natural equity.

3. Limitation of hours of work, leaving the rate of wages untouched by law. p. 194.

This means the same wages for less work, thus increasing cost of production, and would also injure laborers who work by the piece.

4. Fix wages by public opinion of what is fair to both parties. (Philanthropists.)

5. Allowance system = minimum of wages fixed.

Objections. p. 195.

Wages cannot be kept above the rate made by competition, *i. e.* above the highest rate which capitalists can afford (for capitalists compete together as well as laborers). Competition raises wages as well as decreases them, and wages can be lowered only to the point where all laborers share in the wages fund, otherwise capital would be idle and wages would rise. *But competition is not free;* some laborers will be kept out of employment.

They must be employed and capital must be increased by compulsory saving, *i. e.*, work should be found for all. p. 197.

This is all right if the claim could be confined to one generation, for society has the right, in return for the protection it affords, to tax for the public good those who possess superfluities. The greatest need is the subsistence of the people. No one is responsible for his birth, and those who have more than enough should provide for those who have not enough. But it is not fair to those who have produced and abstained to be required to provide for all those whom the imprudent may procreate. p. 196.

If this were just or allowed, all checks would end, taxation for the poor would engross the whole income of a country, payers and receivers would be melted into one mass.

If the State provides sufficient wages for all, it has the right to limit increase. The neglect of this principle gives bad results.

See poor laws, p. 197.

Self help should be cultivated, for the allowance system produces bad results. p. 198.

If wages are increased by allowances, the people will populate up to this allowance, and be as badly off as before, or even worse. p. 199.

People with a low standard of living produce a similar effect on people with a higher standard. p. 200.

THE REAL REMEDY FOR LOW WAGES IS LIMITATION OF POPULATION.

This is understood by trades unions in regard to their own trades, but is not generally applied because; p. 201.

1. The matter is better comprehended in a small field.
2. Artisans are more intelligent than laborers.
3. Artisans are most provident because they have more to preserve. p. 202.

To alter the habits of laborers, all must be educated.

But education is incompatible with extreme poverty, so;

Poverty must be annihilated for one generation; this can be done;—

1. By national colonization.

The money for this would come from *unemployed* capital.

2. By creation of small proprietors. p. 202.

Public land should be divided into small holdings, necessary tools, etc., supplied to responsible laborers, and interest for the advance laid as a perpetual quit rent. p. 204.

Either alternative must be carried out on a large scale so as to raise the general standard of living.

CHAPTER IV.

DIFFERENCES OF WAGES IN DIFFERENT EMPLOYMENTS.

ADAM SMITH'S IDEAS.

1. Wages decrease with ease, cleanliness, and honorableness, in various trades.

But really disagreeable employments, instead of being better paid, are worse paid than others because those who have no choice do the work. If the supply of labor were greater than the demand, then people would require additional compensation to induce them to do unpleasant work.

2. Wages are higher when employment is inconstant. p. 206.

Usually employment is continuous, but in trades where it is not, the laborer must earn enough to support him when he is necessarily idle; he must also be compensated for the risk and consequent anxiety of getting no employment. The combination of these two causes makes very high wages. p. 207.

3. If the chance of total failure is great, possible rewards must be higher. p. 208.

1, 2, and 3 would be true if competition were free.

The following are caused by natural monopolies.

4. Wages increase with the trust necessarily imposed in the laborers.

This is caused by absence of competition, for but few laborers are trustworthy.

5. Wages are higher when the trade needs previous education, and are proportionate to its cost.

Wages must repay with a profit the expense incurred in education.

There is a natural monopoly in favor of skilled laborers, executive managers, etc.

The fact that instruction is required puts the trades beyond the masses and creates a natural monopoly. See notes p. 13.

Cairnes' theory of non-competing groups. p. 210.

A series of layers exist among laborers which are separated by various causes, the members of each layer compete with each other, but the strata are practically isolated. Now, however, increased facilities for education are breaking down the barriers between strata. This, besides many excellent effects, unfortunately tends to diminish the wages of skilled labor.

LAWS CANNOT EFFECTUALLY REGULATE WAGES.

When a trade is carried on by persons who are mainly supported by some other trade, which alone cannot support them, the wages of the former trade may be extremely low; *e.g.*, domestic manufactures. In these, the wages depend on whether the supply can fill the demand. p. 211.

If it cannot, some laborers must devote themselves entirely to this kind of production, and the price of the article must be high enough to give the laborers ordinary wages, and, therefore, to give the domestic manufacturers handsome rewards. p. 212.

But if the supply is too great, the price is kept down to the lowest point where it will pay to produce it.

Supplementary Resources Diminish Wages.

When the laborer is assisted by domestic manufactures, or outside aid, the wages of the main occupation decrease.

When a laborer's family assists him, his wages are lowered. The collective earnings will often be less than his alone, because of overpopulation. When a man's family does not assist him, his wages must be enough to support him, his wife, and enough children to keep the population up, for if they were less, the population would not be kept up. p. 212.

COMPARATIVE WAGES OF MEN AND WOMEN.

When men and women are equally efficient, custom is the only thing that makes their wages unequal. But, in the employments peculiar to women, an overcrowded state lowers wages. Skilled labor enjoys a monopoly as usual.

Overcrowding reduces wages of women lower than those of men. Women get the amount necessary to sustain one human being, men always get more. p. 214.

Fees of professional persons are fixed by custom. p. 215.

CHAPTER V.

PROFITS.

After repaying the capitalist for his outlay in wages, materials, tools, etc., a surplus remains which is his profit. This he can spend or save. p. 216.

Wages of labor are the reward of labor.

Profits of capital are the reward of abstinence.

Gross profits consist of

1. Only a part of the gross profit is the return for the use of the capital itself, viz., What a solvent person would pay for the loan of it = INTEREST. p. 217.

2. Compensation for risk, which raises the rate of interest.

3. Wages of superintendence; *i. e.*, reward for assiduity and skill. These are not really part of profits, but are wages of skilled labor.

The lowest rate of profits that can exist is that which is barely adequate to compensate for the abstinence, risk, and exertion employed. p. 218.

From the gross profits, enough must be taken to cover losses.

Remuneration for capital is steady.

Remuneration for risk is very variable.

Remuneration for superintendence is very variable.

After allowance is made for risk and monopolies, the rate of profit on all capital tends to an equality. p. 220.

Gross profits vary with individuals. p. 221.

Various trades hold out equal expectations of profit, after making necessary compensations.

If this were not so, more persons would enter the more thriving business.

If a trade is not considered thriving, and its profits are inferior to those of others, capital leaves it, or new capital is not attracted. By this change in distribution, a sort of balance is kept. p. 222.

This equalizing process, *i.e.*, the transfer of capital from one trade to another, does not often call for a real transfer of capital, but is made by the distribution of new accumulations. Even when capital is really transferred, those in unprofitable trades do not give up business, but only limit that part of it which is carried on with borrowed capital, while the most profitable trades increase that part of theirs.

When a business is altogether declining, and the capital must be extricated, much loss is incurred, therefore this is done only as a last resort. This is owing to machinery and other fixed capital, business connections, and experience. p. 223.

CAUSE OF PROFIT.

Labor produces more than is needed for its support, thus a surplus is left *which is profit*. p. 224.

Profit comes from the productive power of labor, not from the incident of exchange.

The capitalist is assumed to make all advances and to receive all the produce. p. 225.

THE RATE OF PROFIT is the ratio which the excess of product over advances bears to the advances.

ALL ADVANCES ARE WAGES OF LABOR,

for materials and implements are produced by labor.

Rent is left out of the question. p. 226

Therefore profits depend on the cost of labor AND NOTHING ELSE CAN AFFECT THEM. p. 227.

Wages are distinct from cost of labor.

It is commonly said that wages are high, when it is meant that the cost of labor to the capitalist is high.

The cost of labor is frequently at its highest when wages are lowest, for labor, though cheap, may be inefficient.

Although inefficiency is usually accompanied by low wages, laborers with high wages usually give an equivalent.

Another thing which makes wages no real criterion of the cost of labor is the varying costliness of articles consumed by the laborer. p. 228.

If these are cheap, real wages may be high, and yet the cost of labor may be low.

If dear, real wages will be low, the cost of labor high.

COST OF LABOR DEPENDS ON,

1. The efficiency of labor.

Under this head comes the question of fertility and natural advantages, and the whole matter of ease and difficulty of production.

2. The real wages of the laborer.

3. The greater or less cost of the articles composing these real wages. p. 230.

Profits will rise if:—

1. Labor becomes more efficient, and there is no increase in wages.

2. Real wages fall, the cost of the components being unchanged.

3. Necessaries become cheaper, while the laborer obtains no more of them.

This involves a fall in money wages.

Profits will fall if:—

The converse of 1, 2, 3 happens.

No other circumstances can affect profits.

CHAPTER VI.

RENT.

Since labor, capital, and natural agents are needed for production, the man who has a natural agent has a claim to a part of the product. Land is the principal natural agent which can be appropriated, and what is paid for its use is called RENT.

Landed men are the principal class who have a right to a share in the product through their ownership of something which is not the product of labor.

Rent is the effect of a monopoly.

The reason why landlords exact rent is, because many want land, but can obtain it only from them.

Cairnes says that agricultural rent is not caused by a monopoly of the soil, but by its diminishing productiveness.

Rent depends on law of diminishing returns. p. 223.

A thing which is monopolized, when the gift of Nature and not the result of labor, commands a price only when supply is less than the demand

If the whole of a country were needed for cultivation, all the land might yield rent. p. 133.

No land pays rent unless it belongs to those superior kinds of which the supply is less than the demand. Always some non-rent-paying land.

LOWEST CLASSES OF CULTIVABLE LAND.

1. The worst land which can be cultivated for *subsistence* is that which will just replace the seed and food of the necessary laborers, and also the food of the secondaries.

Secondaries = laborers needed to supply agriculturalists with tools, etc. Nothing is left for profits, so the land can only be cultivated by the laborers themselves, or at a loss.

2. The worst land which can be cultivated as an *investment* is that which, after replacing the seed and food of laborers and secondaries, and giving them the current rate of wages, leaves a surplus which eqnals what the capital could have obtained in other employments.

Whether any land can do more than this is not a physical question, but depends partly on the value of agricultural produce. The greater the excess of produce over advances, the poorer are the cultivable soils which can afford ordinary profits.

It is evident that there will always be some land of class 2. This cannot pay rent until prices rise. p. 235.

The produce of this land is needed by the country, otherwise prices would not have risen high enough to render its cultivation profitable.

The Margin of Cultivation is the standard afforded by the land which gives only the ordinary profits (Class 2) for estimating the amount of rent which superior lands should pay.

The rent which any land will pay is the excess of its profits over the profits which would be returned to capital used on the worst land in cultivation.

The competition of capital allows landlords to appropriate this, since otherwise some capital would receive more than ordinary profits. p. 236.

Some land always pays no rent.

Objection. No landlord would allow his land to be used without payment.

Answer. Inferior land is interspersed with better. Rent is paid for the whole nominally, but it is calculated only on those parts which return more than ordinary profits. See p. 236.

Suppose that soil of a certain low grade, whose cultivation would yield only ordinary profits, were withheld from cultivation. Increased produce would be obtained by the application of increased capital and labor on previously cultivated soils.

The law of diminishing returns would cause the profit from this second application of capital and labor to just equal that which the withheld land would yield. p. 237.

Even if it were true that there is never land which pays no rent, there is always some agricultural capital which pays no rent.

This is the portion last applied, or applied in the last favorable circumstances.

The same price which gave this last application ordinary profits enables all the rest to yield a surplus proportionate to its advantages. This is rent and is taken by the landlord.

Laws of Rent.

1. A farmer requires the ordinary rate of profit on his whole capital.

2. All excess of profits he must pay to landlord and no more.

3. There is always some agricultural capital which gives only ordinary profits. p. 240.

Many payments are included in rent which do not belong there; *e.g.*, buildings are not land but capital, and reward for their use is interest not rent.

Capital sunk in permanent improvements loses its character and becomes land, it should yield rent.

In whatever order lands come into cultivation, those which yield the least proportionate return will always regulate the price of agricultural produce, other lands will pay rent.

Rent does not really form any part of the expenses of agricultural production. For superior efficiency makes up for higher price, in this as always.

BOOK III.

EXCHANGE.

CHAPTER I.

VALUE.

Value is concerned only with distribution of wealth, and not at all with production, and with the former only so far as competition, not custom, is the distributor. p. 249.

The USE of a thing is its capacity to satisfy a desire, or to serve a purpose. No useless thing has a price.

TELEOLOGIC VALUE, or value in use, is the extreme limit of value in exchange.

Exchange value may be less than value in use, but it can never be greater; for persons will not give for a thing more than the utmost value it has for them in gratifying their inclinations.

VALUE, without adjunct, means value in exchange.

Exchange value must be distinguished from price.

The PRICE of a thing is its value in money. p. 250.

EXCHANGE VALUE is the general purchasing power.

Command over commodities in general, or purchasing power, is merely relative.

Those changes which originate in several commodities compared with a particular one affect its value relative to them; but those which originate in itself affect its value in regard to everything.

A general rise of prices is possible.

A general rise of values is impossible.

For all things cannot rise relatively. Some must rise and others must necessarily fall. A general rise or fall of prices means an alteration in the value of money, and is unimportant, except as regards contracts. p. 251.

Competition is supposed to regulate everything.

Cairnes' idea of value is the ratio in which commodities exchange in open market. See p. 251 for various ideas.

Resumé of Laws of Value under Free Competition.

Exchange value has three conditions:

1. Utility, or ability to satisfy a desire (U).
2. Transferableness.
3. Difficulty of attainment, which has three classes:

CLASS I.

Those limited in supply, *e.g.* ancient pictures or monopolized articles.

LAW 1. Their value is regulated by demand and supply. U the only limit.

CLASS 2.

Those whose supply can be indefinitely increased by labor and capital.

LAW 2. Their normal and permanent value is regulated by cost of production, their market value by demand and supply, which tends toward the normal value.

CLASS 3.

Those whose supply is governed by diminishing returns, and whose cost is continually increasing.

LAW 3. Their normal value is regulated by the cost of production of that part which is marketed at the greatest cost. Their market value is regulated by demand and supply as in Class 2.

If competition is not free, then the value of Classes 2 and 3 is governed by the law of reciprocal demand.

Difficulty of attainment varies.

Class 1 (*a*) Sometimes an absolute limitation of supply.

The value depends on scarcity and on the proportion between supply and effective demand. p. 255.

Classes 2, 3 (*b*) Most things depend only on the labor and expense of production. p. 254.

General Demand = General Supply, therefore

No general overproduction is possible. Particular overproduction is possible because a varying amount of the general production is devoted to the purchase of given things.

If demand and supply are unequal, they are equalized by competition. The price rises and falls until the market value is just that which will carry off the existing or expected supply.

Few commodities are naturally limited in supply, any commodity can be limited by artificial monopoly. p. 257.

The supply of some things is temporarily limited; *e.g.*, agricultural produce, and things which take a long time in manufacture. Until the supply is increased, the value rises with the demand.

Things which can be easily multiplied, but can be diminished only by destruction, have their value regulated by supply and demand. This will rise as the stock wears out until production is renewed.

Labor depends on demand and supply, as it can easily be increased or diminished in amount.

A minimum value is always extant which determines whether an article will be produced or not. Unless the market value will repay the cost of production and yield ordinary profit, the article will not be produced. p. 259.

Necessary value = cost of production and ordinary profit.

When competition is free, necessary value is all that can be expected. For if profit is greater, capital rushes in, the supply is increased, and values fall. p. 260.

This does not imply that anybody gives up business, but it is all done by means of credit. That profits may be equal when the outlay is equal, things of the same cost of production must be of the same value.

NATURAL VALUE, OR NATURAL PRICE, IS

that value of a thing which is proportionate to cost of production, or the centre value toward which market value gravitates, which is preserved by the variations in supply. p. 261.

There is no need of any actual alteration in supply. The mere possibility often suffices to lower prices.

The values of things that can be increased at pleasure do not depend on demand and supply. p. 262.

There is a demand for commodities at their natural value, and the supply tries to conform to the demand. When it does not conform, it is through miscalculation, or from a change in the problem. p. 263.

Either the natural value changes, or the demand varies owing to an alteration in the consumer's tastes.

If a value other than natural value be necessary to make demand equal supply, the value will change for a time only; for more or less than ordinary profit cannot exist.

RESUME.

CLASS 1. Demand and supply govern all things which are limited; except that even for these there is a minimum determined by cost of production.

CLASS 2. Demand and supply determine the changes of values, for short periods only, of things which are unlimited. They in turn are ruled by the gravitation of values toward cost of production, where all things would settle unless continually disturbed.

Continued in Chapter III.

CHAPTER II.

ULTIMATE ANALYSIS OF COST OF PRODUCTION.

Mill's Ideas.

The cost of production to the producer is the labor expended in producing an article. p. 264.

The principal component in cost of production is labor.

Considering the capitalist as the producer, we may replace "Labor" by "Wages."

For tools, materials, etc., were produced by labor and capital, and their value depends on the cost of production = labor = wages.

This shows that cost of labor = cost of production.

The value of commodities depends principally on the quantity of labor required for production, and also its remuneration.

Labor = wages to the capitalist. Wages may vary with the same amount of labor. The values must depend on wages.

The mutual relations of articles cannot be affected by causes which affect both alike, therefore—

A rise or fall in general wages affects everything equally, and so does not alter values, but a general rise of prices is possible. p. 265.

General high or low wages do not affect values.

High wages do not make high prices, for if this were true, there would be no real rise in wages, because if wages could not rise without raising the price of everything, there would be no rise at all.

General high prices increase money returns and expenses alike, while high or low wages in industrial trades do affect values. p. 266.

The produce of skilled labor is more valuable than that of unskilled, because the former is more highly paid.

Owing to "noncompeting groups" wages in different employments do not rise and fall simultaneously, but are nearly independent. Such disparities increase the relative cost of production, and will affect values.

The relative wages necessary to production affect values as much as the relative quantities of labor. p. 267.

Absolute wages and quantities have no effect. If they varied simultaneously in all trades there would be no effect.

Capital is necessary to production as well as labor. The reward of abstinence (profit) must compensate for all abstinences, and all advances are part of the cost of production.

Thus profits as well as wages determine cost of production. p. 268.

Formerly, on pages 225, 226, Mill did not include profits in outlay, now he includes profits both of direct and indirect capitalists.

CORRECT IDEA OF THE COST OF PRODUCTION.

The reason why wages are higher here than in England.

In America three men with $100 of capital can produce 100 bushels of wheat on an acre. In England the same men can only produce 60 bushels to an acre with the same capital. Now if the rate of profit is 25 per cent in both countries, in one case there will be 75 bushels, in the other 45 bushels, to be divided among the laborers. Thus each man's wages will be 25 bushels, in America, while the English laborer will only get 15 bushels. This is seen from the following diagrams.

$$100 \text{ bu.} \begin{cases} 25 \text{ bu. profit} \\ 75 \text{ bu. wages} \end{cases} \qquad 60 \text{ bu.} \begin{cases} 15 \text{ profit} \\ 45 \text{ wages} \end{cases}$$

Wages and profits are high when cost of production is low. p. 269.

Our extractive industries are very productive, therefore wages and profits are high (*i.e.* cost of production is low).

Cost of production is not made up of wages and profits, and the cost does not rise with a rise in wages and profits.

An increased cost of production means that more capital and labor are needed to produce a given article.

"More labor" means that a given quantity of labor is exerted for a longer time.

"More capital" means that a given amount of wealth is abstained from for a longer time, *i.e.* more sacrifice in exertion and abstinence is needed.

CAIRNES' DEFINITION.

The cost of production is represented by the number of average laborers employed, multiplied by the time, regarding also the severity and risk of the work, plus the quantity of wealth abstained from multiplied by time, regarding also the risk.

(Labor(l) (Time(t) of exertion or abstinence) (Risk (r)) + (Wealth(w)) (Time) (Risk).

(L i T e R + W a T e R)

This includes the real sacrifice of laborer.

Relations of Cost of Production to Values.

In competing groups, the amount of wages and profits equals the sacrifice. p. 270.

Wages and profits both come from aggregate product, therefore they must vary with it. If the total value falls, some laborers will be paid less than their sacrifice is worth.

The value of a commodity in a group must conform to its cost of production. For;—

a. If the value of an article did not give the laborer the usual equivalent for his sacrifice, he would change his work. p. 270.

b. If profits were not of average amount, the capital would be otherwise invested.

In non-competing groups it is different, as the value of the aggregate product in any part of a group depends on what it will exchange for in other groups.

If cost of production is low in one group, and other groups have a strong demand for the product, its value will rise.

Since labor and capital do not move freely between groups, wages and profits may not correspond with actual sacrifice, hence products do not exchange proportionately to their cost of production, and reciprocal demand is the law of their value. p. 271.

It is said in business that high and low wages affect cost of production. Wages do represent cost to the capitalist, *i. e.* cost of labor. Thus "cost of production" is misused for "cost of labor."

The connection between cost of labor and cost of production is through efficiency of labor. Thus the more productive an industry, the higher its wages and profits may be.

If machinery can lessen the sacrifice to labor and capital in producing an article, higher wages are consistent with lower prices. Owing to skill and natural resources, some laborers can produce articles cheaper than others who may be paid much less. p. 272.

FLUCTUATIONS OF THE MARKET.

Normal price is governed by cost of production and reciprocal demand, and must be constant, unless one of these alters.

The market price may vary from the normal price, as it depends on the opinions of the dealers in regard to the state of supply and demand; these variations are fluctuations of the market, and call into action forces which restore the normal price. p. 272.

Value depends on relative profits as it does on relative wages, and the idea that high general profits can cause high values is absurd.

Profits may enter more largely into the cost of production in one thing than in another, even though the rate of profits is the same, as one article may have to yield profit for more time than another; *i. e.* take longer to produce. p. 273.

E. g. Wine which must be kept requires an additional outlay which must be compensated.

Profits enter more into the cost of production of machine made articles than into that of those made by hand. They are like wine. For less wages are paid, and the difference is paid as profits to the machine maker.

As profits enter unequally into the advances of capitalists and therefore into returns demanded, it follows;—

1. Commodities do not exchange in the ratio of the quantity of labor necessary for production, not even allowing for unequal wages of various kinds of labor.

2. Every rise and fall of general profits will affect values.

Not by raising or lowering them (an impossibility) but by altering the proportion in which values are affected by unequal times. When two things requiring equal labor are of different values because of different times of production, this difference will be greater when profits are greater and vice versa. Wine and cloth will be more unequal at 40 per cent profit than at 20 per cent. p. 274.

Therefore a general rise of wages, when it involves increase in cost of labor, influences values, not by raising them universally, but by lowering profits, and thus diminishing the difference caused by time. All machine made articles are lowered in value when profits fall. p. 275.

Elements of Cost of Production.

1. Constant { *a* Wages. *b* Profits.
2. Occasional { *a* Taxes. *b* Extra cost from scarcity.

Some taxes are part of cost of production and the outlay must return ordinary profits. p. 276.

Taxation of certain articles only would raise their value.

Extra cost from scarcity affects natural agents. They have no value from appropriation, but from scarcity.

GROUND RENT IS PART OF COST OF PRODUCTION.

These "Occasionals" increase cost of production because there is either more abstinence, or abstinence for a longer time; thus they affect values.

CHAPTER III.

RENT, IN ITS RELATIONS TO VALUE.

CLASS 3. Things which have several costs of production, and are governed by the law of diminishing returns; *e. g.* agricultural produce. p. 277.

This class is intermediate between classes 1 and 2.

If only the best land in the country is used, the price of corn will change only with casual variations in supply. p. 278.

As the population increases, the demand is doubled; it will not pay to cultivate poorer lands, or increase cultivation on good soils, owing to diminishing returns, unless the price rises; this will be brought about by increasing demand, and until the price is sufficient to pay for an additional quantity, the value of the supply is a scarcity value. When the price rises to the natural price of the required quantity, it will be produced. p. 279.

THE LAW OF VALUE FOR CLASS 3.

The natural value of an article is determined by the cost of that part of it which is produced and marketed at the greatest expense.

Those who cultivate most favorable soils obtain for their produce more than the cost of production, the difference between efficiency of their own and poorer soils. This is a privilege and must be paid for unless the farmer owns the soil.

The surplus produced by a part of agricultural capital over what is produced by the same amount on poorer soils, or l higher cultivation, must be paid as rent. p. 280.

Adam Smith says that the produce of land is always at a monopo value, because in addition to ordinary profit it always yields rent. p. 2

Objection. There can be no monopoly value when the supply can indefinitely increased if we are willing to pay more.

Rent is no part of the cost of production of agricultural products. The least favorable land, or capital, pays no rent and determines the value of the whole product; rent is no cause of value, but the price of the privilege conferred on all but the value-fixer, and is repaid by increased efficiency.

Rent equalizes the profits of different capitals. If rent were abolished, the consumer would not be benefited, but the farmers would, as, if a part of the products had a high price, the whole would. p. 282.

Nationalization of land would not benefit the laborers by lowering the price of food.

Mines pay rent.

Even the poorest may pay rent, as the grades are sharply defined, and the demand may raise the price above the cost of production of the poorest mine, without being high enough to make still poorer mines pay. In the interval, the produce is at a scarcity value. p. 283.

Fisheries pay rent.

Owing to the same causes as mines.

When a new mine or fishery is opened better than the poorest in use, the scale will be disturbed, and a new regulator will come into use.

Ground rent, and rent for gardens, must equal or surpass the agricultural rent.

Beautiful sites are at a scarcity value. Convenient sites are on a par with fertile soil.

The ground rent must be higher than its own agricultural rent, not than that of better land. p. 284.

Wharfage, docks, patents, all are similar. Superior business talents are similar, as the man can produce cheaper than the value fixer and thus pays himself rent.

CHAPTER IV.

MONEY.

Money performs three services.

1. A common measure, or denominator, of value.

A common measure for values of different kinds is very necessary. In barter calculations would have to be made on different data at every transaction, there could be no current price. p. 287.

A common denominator is a standard to which the values of other commodities may be reduced for comparison. See p. 121.

2. A medium of exchange.

A medium of exchange transfers value. Division of labor impossible under a barter system.

3. A standard of value for deferred payments.

This is the means of comparing the purchasing power of an article at various times. This is distinguished from 1 only by the element of time. At the same time and place the standard of value is given in the common denominator of value.

A measure of value is a thing by comparison with which we may find the value of any other thing. Value is relative and two things are necessary to make it besides the measure.

A measure of value is a thing, by comparison with which we may infer the relative values of two other things.

Thus anything can serve as a measure of value, but money is usually used.

A measure of the value of a thing at different times and places is sought, instead of at the same times and places. To make this possible, money must always have the same general purchasing power, which is impossible for any commodity in all circumstances.

The only remedy is to have a

MULTIPLE STANDARD.

A definite quantity of a number of articles as grain, beef, potatoes, wool, sugar, timber, iron, coal, etc., is taken. Their value, in the quantities and qualities specified, is ascertained at certain intervals by government and the total amount of money needed to purchase the lot is announced. People may make future payment contracts in this standard.

It is used as follows; — A borrows $1000 for 10 years. The multiple standard is then $125. Thus he borrows 8 standard units. When he pays, the multiple standard is $100. 8 units = $800. Thus neither man gains or loses. The same general purchasing power is transferred in either case.

THE REQUISITES FOR A PERFECT MONEY.

1. Value.
2. Portability.
3. Indestructibility.
4. Homogeneity.
5. Divisibility.
6. Stability of value.
7. Cognizability.

These requisites limit the list to a few articles. Gold and silver possess these qualities in the highest degree.

There has been only one great alteration in the value of gold; *i. e.* from American discoveries. The cost of production varies less than that of any other article. p. 291.

Because of the durability of gold and silver, the total quantity in existence is always so great, relative to the annual supply, that very little effect is produced by a change in cost of production. p. 292.

By the process of coining, the metal is divided into convenient portions, with recognized proportions. Thus frequent weighing and assaying is saved.

The use of money makes no difference in values, as things are not really purchased with it. Only the income of miners is derived from money. The real income of a person is his share in the goods produced. Money is merely a machine, and produces bad effects when it gets out of order. p. 293.

As money is a commodity belonging in class 3, its value is determined temporarily by demand and supply, permanently by cost of production.

CHAPTER V.

THE VALUE OF MONEY, AS DEPENDENT ON DEMAND AND SUPPLY.

The value of money is its purchasing power, and is inversely as general prices.

When a person lends or pays money, what he transfers is not mere money, but the right to a certain value of produce to be selected at pleasure. *Capital* is really lent, but it is computed in *money*. Hence capital is often called money.

The value of money depends on demand and supply.

The supply of an article is the amount offered for sale. We really buy and sell money.

The supply of money is all the money in circulation.

The demand for money is all goods offered for sale. p. 296.

The whole of goods = the demand for money, and

The whole of money = the demand for goods; thus they are reciprocally supply and demand.

If the consumption of a community remains stationary and the money is doubled, demand of money for goods would increase, and thus consequently a rise of prices. This increased value would not benefit any one.

Prices would rise in a certain ratio proportionate to the increase in money, while the value of money would fall in the same ratio. p. 297.

The value of money varies inversely as its quantity.

This is peculiar to money. It is not true of commodities that a diminution of supply raises the value proportionately. The proportion varies owing to variations in demand. The amount which would be spent, being limited, will be affected by the difficulty of attainment. The only limit to the demand for money is the absence of any more goods to offer in exchange.

Money laid out = value of goods purchased, but the quantity of money laid out does not equal the quantity in circulation.

Each piece of money is used many times and must be counted for as many pieces as the number of times it changes hands.

The quantity of goods on hand is a fixed quantity. The number of times resold is also a fixed quantity.

The value of money depends on its quantity and the number of times it changes hands.

The amount of goods and transactions being the same, the value of money is inversely to quantity times rapidity of circulation.

The quantity of money in circulation equals the money value of sold goods divided by the rapidity of circulation.

V = value of money.
Q = quantity in circulation. $V = \frac{1}{Q \times R.}$
R = rapidity of circulation.

The rapidity of circulation does not mean the number of purchases in a given time. Time is not to be considered.

If a piece of money makes few purchases in a year because traffic is dull, or because of barter, this is no reason for low prices or high money value. How often it changes hands to perform a given amount of traffic is the essential point.

Credit renders connection between prices and quantity of money less intimate. p. 299.

Only that part of money affects prices which is actually exchanged for goods.

Money frequently enters a country, is invested, and leaves, having acted only on the market for securities, and not on the market for commodities. A foreigner invests his money and thus lowers interest, thus causing native capital to go abroad for investment. p. 301.

The passage of money depends on the state of the loan market, not on the state of prices.

When a temporary increase of business is accompanied by a proportionate increase of money, prices are not raised.

CHAPTER VI.

VALUE OF MONEY, AS DEPENDENT ON COST OF PRODUCTION.

The ultimate regulator of its value is cost of production.

Governments formerly stopped the exportation and melting of money, and also the importation of other articles, in order to encourage the exportation of other things. They drew into the country more money which they thought equalled wealth, this caused high prices, which they thought an advantage, but it is not really.

When no charge is made for coinage, the value of money equals that of bullion.

It cannot be worth more as bullion than as coin, for as it can be easily melted, the quantity in circulation would be lessened uutil its value equalled the same weight of bullion. Coin would be worth more than bullion, because it is manufactured, but as no charge is made for coinage the value is unchanged.

If government charges a seigniorage for coining, coin will be to that extent more valuable than bullion. p. 303.

The value of money conforms to the value of its metal, with or without the addition of the cost of coinage.

Money is usually a foreign product, and this modifies conclusions. p. 304.

When money is a native product, it belongs to *Class 3*, and is governed by law 3.

If gold is above its cost value, money will be high and prices low. Low prices cause lower expenses of production, returns are also low, thus only the gold producer will be benefited. p. 305.

Adjustment is slow.

Because money is durable and the supply is therefore immense. A small annual production makes up for the loss by wear and the use in the arts. If the increase were stopped, it would take long to diminish the present supply perceptibly.

The quantity can be increased more rapidly than decreased, but the increase must be great to produce noticeable effects, hence the effects of all changes in conditions of production are for a long time merely questions of quantity, and depend but slightly on cost of production. p. 308.

The durability of precious metals has excepted them from the law of cost of production. This is the cause of vast accumulation and also prevents its value from conforming to cost of annual product. p. 309.

But the value of money conforms, though slowly, to cost of production.

Objection to law of value for money. Although money is governed by ordinary laws, a special law is made for it.

Answer. The law for money is simply the law of demand and supply controlled, but not annihilated, by cost of production, since the latter would have no effect on value if it could have none on supply. p. 309.

There really is a closer connection between quantity and value of money than in the case of other things. With other articles the potential alteration is sufficient and actual alterations are temporary, except as the demand is affected and the supply altered as a consequence, not a cause, of alterations of value. This is true of gold and silver in the arts, but not of money. p. 310.

Alterations of cost of productions of metals do not affect value of money, except in proportion as they alter the quantity, this is not true of other commodities.

Sometimes the potential change produces the usual effects, and money conforms more to law of supply and demand.

The cost of production regulates the quantity finally, and there will always be money enough to perform all necessary exchanges, consistently with keeping up the value to the cost of production. p. 311.

The average prices will be such that money will exchange for its own cost in other goods. Because the quantity always affects value, the quantity will be always kept at the amount necessary for doing, at those prices, all required business.

CHAPTER VII.

OF A DOUBLE STANDARD AND SUBSIDIARY COINS.

Gold and silver, though the least variable of all commodities, are not invariable in value, and do not always vary equally. When a gold coin is more valuable than a silver one, it will be melted, and silver will be the only money. p. 313.

This is expressed by

GRESHAM'S LAW.

Money of less value drives out money of more value when both are legal tender.

When both metals are legal tender at a fixed valuation, the standard is subject to derangement from the fluctuations of either. p. 314.

When one metal is legal tender and the other is coined and allowed to pass at its market value, the best results are secured. When gold is used thus, three regulations are necessary to keep the other metal in circulation. p. 315.

1. Silver must be made legal tender for small payments.
2. Silver must be rated above its gold value, so that it may not become more valuable than gold by a slight rise, and thus be driven out.
3. The quantity of silver coinage must be limited, so that its over-valuation may not be a source of profit to individuals.

For the experience of the United States, see p. 319–324.

Legal coins in the U. S. in 1884.

1. Gold coins.
2. Silver dollars of 412½ grains.
3. United States notes.
4. Subsidiary silver, to the amount of $10.00.
5. Minor coins, to the amount of $.25.

CHAPTER VIII.

CREDIT AS A SUBSTITUTE FOR MONEY.

Credit is only permission to use another person's capital, and it cannot increase the means of production, but only transfers them. p. 325.

The same sum cannot supply its entire value in wages and materials to two sets of laborers at once, but though capital only to the borrower, it still is a part of the lender's wealth.

Credit causes a more effective use of capital, and by preventing loss by disuse, adds not to the capital in existence, but to that in employment. p. 326.

Credit given to unproductive consumers is always a detriment to the wealth of a country. p. 327.

Where credit is given, general prices depend more on the state of credit than upon the quantity of money, as, though not capital, it is purchasing power, and by creating a demand for goods affects their price as much as money would.

There are four kinds of credit.

1. Simple book credits. p. 328.

A keeps an account of what B owes him, and B does the same with A. At the end of the year the two accounts are compared, and a small payment balances them.

2. Bills of exchange.

A pays his debt to B by making over to him a debt due A by another person, C, by means of a transferable order on C which, when *accepted* or signed by C, is a certificate of indebtedness.

Bills of exchanges were first introduced to save transportation of the precious metals.

A of New York sends B goods worth $100. C of Liverpoool sends D other goods also worth $100. Thus A has a claim to $100 in Liverpool while D owes the same sum there. D gives A $100, who is thus paid, and takes his claim on B. This claim is sent to C who presents it to B for payment. Thus all are paid without the use of money. p. 329.

For form used see p. 329.

Bills of exchange are often drawn payable in six months instead of at sight. In that case, the bill is taken to a bank and discounted, *i. e.* the owner gets the cash minus the interest for the specified time. Of a number of bills of exchange, only one can represent real property. p. 330.

3. Promissory notes. p. 331.

A promissory note is a *promise* to pay money, while a bill of exchange is an *order* to pay money. A Boston man sells $1000 worth of shoes to a man in St. Louis, who pays for them by a promise to pay $1000 in a given time. This is usually taken to a bank and discounted. If payable in six months at 6 per cent a year, the Boston man gets $970. Such notes act as money, and render the same amount of coin unnecessary, but the issuer must keep enough money on hand to pay them when due. p. 332.

4. Checks.

A has $100 in coin. He takes it to a bank and is credited for it. He then buys $50 worth of goods of B, and gives him a check for $50. B takes the check to his bank and it is placed to his credit. Thus no money is used. Such a transaction is possible only when both use the same banker, otherwise B would take the check to A's bank and get cash.

The clearing house is an arrangement to make all the banks of a city practically one establishment. p. 333.

A clearing-house is a circular railing with as many openings as there are banks. A clerk from each bank leaves at the bank's opening all the checks which have been deposited in his bank, and notes the amount. These checks are claims on other banks for money. A clerk inside takes the checks, and distributes them to the clerks of the banks against whom they are drawn. The checks that are left at a bank's opening are the claims of other banks against it. The sum of these claims is set off against the sum noted by the clerk at first, which constituted its claims on other banks. The difference for, or against, the bank is then settled by a check. p. 334.

CHAPTER IX.

INFLUENCE OF CREDIT ON PRICES.

When there is an increase in the amount of money in circulation, prices rise, when there is a diminution, prices fall; and credit produces this effect equally with coin. Bank-notes, bills of exchange, and checks have no independent action on prices. Money not in circulation has no effect on prices. p. 336.

A man's possible demand for commodities is composed of all the money in his possession or due to him (this is transferred by check) and of all his credit besides, in the various forms of book credits, or borrowed bank notes. p. 337.

More or less of this purchasing power is used, as the prospect of profit seems greater or less. The use of this power tends to produce the very effect which caused its employment, *i. e.* a rise of prices. This rise in price gives a hope of further profit, and more credit is employed with the same effects. When these speculative prices have risen above the rise which the original grounds for expecting a rise will justify, the rise stops. Then everybody is anxious to sell to realize his gains, and so rushes into the market. This great supply thrown into the market causes a sudden drop in prices, and the consequent losses often wipe out the previous gains. This drop, when joined with an unreasonable panic causing almost a complete refusal of credit, is a *commercial crisis* and is caused solely by credit, and not by money or the failure of the crops. p. 339.

Book credits serve only for a single purchase, but checks, bank notes, bills of exchange, and promissory notes, being transferable, perform all the functions of a currency.

The willingness to give credit depends, not on the quantity of currency, but on the supposed solvency of the debtor. p. 342.

An inconvertible legal tender paper is money, but instruments whose value depends on the solvency of the issuer are not money, but credit.

CHAPTER X.

AN INCONVERTIBLE PAPER CURRENCY.

When it was found that pieces of paper, by bearing upon them a profession that they were equal to a certain sum of money, gave to the issuer all the benefits of possessing coin, governments began to use them, and, in addition, freed themselves from the necessity of giving coin in exchange for the paper, the only thing which gave the paper any real value. p. 345.

An inconvertible paper derives its purchasing power solely from convention.

A man will accept anything as money when he is sure that others will take it from him on the same terms upon which he received it.

The value of an inconvertible paper depends solely on supply and demand, and not at all on the cost of production.

If there is more in circulation than is needed to perform the exchanges, it will depreciate. p. 346.

EFFECTS OF PAPER CURRENCY.

Suppose the currency of a country is $1,000,000 of gold coin. Now let a paper currency be issued by the government to the amount of one-half the coin, *i. e.* $500,000. The prices of all commodities will rise one-half, and gold with the rest. An ounce of gold will be worth more as plate than as coin, and so will be melted. This melting will go on until an amount of coin has been withdrawn equal to the paper issue. Then prices will return to their former level, and the currency of the country will be $500,000 of paper, and $500,000 of coin. Successive issues will produce the same effects, until finally all the coin will be driven out of the country. p. 347.

Up to this point, the same effects follow from an inconvertible or a convertible paper. Now, if still another issue is made, prices rise as before, and coin is in demand for melting. Although there is no coin in circulation, if the paper is convertible, coin may be obtained from the issuers in exchange for notes, and all this extra issue will be presented for payment; thus the supply will be proportioned to the demand and cannot depreciate. But if the currency is inconvertible, there is no such check, and unlimited depreciation follows. p. 348.

Such a depreciating power is an intolerable evil, as it deranges business. An income of $100 in paper may be worth only $50 in a year.

It was in order to avoid just such variations that gold and silver were taken as the standard of value. Such depreciation can be prevented with an inconvertible paper by contracting the issues whenever the market value of bullion is above the mint price; this is practically equal to a convertible paper, but is much more liable to abuse by over-issue. p. 352.

FALLACIES OF AN INCONVERTIBLE PAPER CURRENCY.

1. Paper cannot be issued in excess as long as it represents property.

This theory confounds two distinct evils of a paper currency. (*a*) The insolvency of the issuer, which would render valueless the promise to pay. (*b*) The tendency to depreciation by over-issue as in the case of the French assignats.

It is evident that if the property represented cannot be claimed in exchange for the paper, it differs in no way from an inconvertible paper, as there is no check by redemption to over-issue. p. 349.

2. An increase of the currency quickens industry by causing a rise in prices.

If the rise of prices increases a man's income, it also increases his expenses, and thus produces no effect. In times of speculative high prices, men gain, not because they expect the present prices to last, but because they expect them to fall. Whoever realizes then, will have more dollars after the fall, without their being of less value. p. 360.

When commodities rise unequally, some gain while others lose. Thus there is no real gain.

An issue of notes is a gain to the issuer, as, until the notes are returned for payment, he obtains the use of them as if they were real capital. When the paper merely supersedes coin, this gain is a loss to nobody, as it merely saves the expense of the more costly material. But if notes are added to a paper circulation, the gain to the issuer is paid by the depreciation of the currency, a tax is virtually levied on the public for his benefit. p. 362.

The debtor classes are also gainers, as, by paying their debts in a depreciated currency, they can escape from part of their obligations. Although this seems a great gain to the laborers, who are the principal borrowers, the loss of integrity and good faith is much greater than any apparent advantage. p. 363.

MONEY MEASURES AND TRANSFERS VALUE.

1. The precious metals make the best money on account of their peculiar qualities.
2. Its value depends in the long run, on the cost of production at the worst mine in use (Class III); but practically on demand and supply (Class I). If no credit exists, its value changes exactly with the supply, or $V = \frac{1}{Q \times R}$.
3. Under two legal standards, it obeys Gresham's law.
4. The substitutes for money are called *credit*. This is not capital, but calls inactive capital into use. The use of credit does not depend on the quantity of coin and notes. The various kinds are:
    1. Book credits.
    2. Bills of exchange.
    3. Checks.
    4. Promissory notes of
        1. Individuals.
        2. Banks { *a*. Coin. *b*. Land.
        3. Governments, which are
            1. Convertible, *e. g.* U. S. notes since 1879.
            2. Inconvertible, *e. g.* U. S. notes from 1862–1879.

CHAPTER XI.

OF EXCESS OF SUPPLY.

THE DOCTRINE OF GENERAL OVERPRODUCTION OF WEALTH.

1. There is sometimes an excess of productions in general beyond the demand for them.

2. When this happens, purchasers cannot be found at prices which will repay the cost of production with a profit.

3. Consequently, there is a general depression of prices or values (no clear discrimination between them).

4. The cause of this is the too rapid accumulation of capital, which must be kept down by an ample unproductive consumption. p. 366.

MILL'S ANSWERS.

Demand means either the desire to possess, or the means of purchase.

a. If the community does not lack the desire to possess, it must lack the means of purchase. But this is impossible, as all commodities are the means of payment for all other commodities, through the medium of money. If we double the supply of commodities in a country, we double the purchasing power. Everybody will be able to buy twice as much, as he will have then twice as much wealth as before. Thus general values remain unaffected, while prices depend merely on the quantity of currency. (In the case of *particular* commodities, the *relative* values might change, as the community might prefer to more than double its consumption of one commodity, and only increase slightly its demand for some other commodity. The total demand for the two, however, would be doubled.)

b. If the desire to possess is supposed to be lacking — *i.e.* that all who have an equivalent to give already possess all the consumable articles they wish — the fact that production continues proves that this cannot be the case, as no one will work if he already has everything he wishes.

If a foreigner should come into a country where everybody had everything he wanted, and should produce something of which there was already enough, there would be overproduction of this particular article. But this overproduction was not the result of a lack of desire to possess, as the foreigner certainly wanted something, but produced the wrong thing. If he could produce something new and desirable, the inhabitants would exert themselves to purchase the new article. p. 368.

Whoever brings additional commodities to market, brings additional purchasing power; also an additional desire to con-

sume, since otherwise he would not have produced these articles. Thus neither of the elements of demand can be wanting, when there is an additional supply, although the demand may be for other things than the proffered supply. p. 369.

In time of commercial crises there is an undersupply of money, caused by the annihilation of the credit which formerly served as money, and not by an excess of production. This condition is only temporary. p. 370.

The notion of overproduction seems to be supported by the continual fall of interest and profits. This is caused by the operation of the law of diminishing returns, which is brought into action by the increase in population. Low profits are very different from a deficiency of demand caused by overproduction. This subject is treated Book IV, Chap. II.

CHAPTER XII.

OF SOME PECULIAR CASES OF VALUE.

Demand and supply always govern the *market* value of commodities, and also the *permanent* value of all things whose supply is not governed by free competition; but under free competition things (except Class 1) exchange in the ratio of their costs of production. p. 373.

WHEN TWO COMMODITIES HAVE A JOINT COST OF PRODUCTION.

I.e. When they are produced by the same operation, and the outlay, although made for the sake of both, would be the same if one of the two were not desired.

Cost of production determines the *sum* of their prices, and the price of each one depends on demand and supply.

GAS AND COKE.

A certain quantity of gas and the residuum of coke are sold so that the price of the two just pays expenses and gives ordinary profits. If more gas is wanted, more coke will be produced. Suppose that there is no demand for this extra coke, it will be offered at a lower price. But this lower price together with the former price of gas will not pay expenses and profits, and the price of gas must be raised. The demand will naturally contract, and prices will become fixed when,—by the rise of gas and fall

of coke, — so much less gas, and so much more coke is sold that all the coke is taken at a price which, together with the price of gas, will give the usual profit. p. 374.

The reverse. If more coke is wanted than is produced consequent on the existing demand for gas, its price will rise, as the demand is greater than the supply. Production of coke will be stimulated, and the resultant gas can only be disposed of by lowering the price. Equilibrium will be reached when the demand for gas fits the demand for coke so that the quantity wanted of each is just that produced in making the other.

AGRICULTURAL PRODUCE.

There would be nothing peculiar in this case if it were not for the fact that most soils, although fitter for one article than another, are not absolutely unfit for any, and that rotation of crops is necessary. If one soil were fitter for wheat, that alone would be grown there, while oats, for instance, would be grown on another soil; thus the values would have no reference to each other as they are in noncompeting groups. If the demand causes both to be produced in competition on soils not especially adapted to either, their relative costs of production on these soils will determine their relative values. If the demand for wheat causes all the medium soil to be occupied, the value of wheat must be greater, and that of oats less than their relative values as determined by their costs of production on that medium land. p. 376.

CHAPTER XIII.

OF INTERNATIONAL TRADE.

The reason why things are imported which could be produced without difficulty at home, is that it is cheaper to import than to produce them. When two things are produced in the same place, one is cheaper than the other because it is produced with less labor and capital. This does not apply in the case of distant places, and a thing is often sold cheapest by being produced elsewhere than where it can be produced with the least capital and labor. This cannot happen in adjacent places, as, if one place had an advantage over another, production would be transferred to the best place, as thus profits would be increased. This would be the case even between distant places, if capital and labor moved freely, but this is not the case. The great differences in wages and profits in different parts of the world do not cause the expected movement of labor and capital on account of distance and difference in forms of civilization. p. 379.

Trade is determined, not by absolute cost of production, but by the difference of comparative cost, and we may often by trade obtain articles at a less expense of labor and capital than it cost the foreigner to produce them. p. 380.

Illustration.

Cloth	10 days	labor	produces	20 yds.	in England.
	15 "	"	"	20 yds.	in Sweden.
Iron	12 "	"	"	25 cwt.	in England.
	15 "	"	"	25 cwt.	in Sweden.

Here England has the advantage in both cloth and iron, yet trade will arise. England will send her 20 yards of cloth and get 25 cwt. of iron in exchange (for 25 cwt. of iron exchange for 20 yds in Sweden, as both take 15 days labor to produce), and so gain 2 days' labor. Thus England got for ten days' labor what it cost Sweden 15 days to produce. This is because it is the difference in comparative costs that causes trade. p. 381.

CASES IN WHICH TRADE WILL OR WILL NOT ARISE.

Case 1.

Corn	100 days'	labor	produces	75 bush.	in United States.
	150 "	"	"	75 bush.	in England.
Iron	100 "	"	"	50 cwt.	in United States.
	150 "	"	"	50 cwt.	in England.

In this case although the United States has the advantage in both articles, no trade will arise, as the comparative costs are the same, while the absolute costs are different.

If England sent 50 cwt. of iron to the United States she would only get 75 bushels in exchange, which could be produced at home with the same number of days' labor, besides saving the cost of carriage. It would be the same if the United States sent 75 bushels to England. Neither side would be benefited by any exchange.

Case 2.

Corn	100 days'	labor	produces	75 bush.	in United States.
	200 "	"	"	75 bush.	in England.
Iron	100 "	"	"	50 cwt.	in United States.
	150 "	"	"	50 cwt.	in England.

Trade would arise. England's gain would be a saving to the world, as the United States loses nothing. p. 382.

England would send her 50 cwt. and would get 75 bushels in exchange, which would have cost her 200 days. She would thus save fifty days less the cost of transportation over and back.

Case 3.

Corn	100 days'	labor	produces	75 bush.	in United States.
	200 "	"	"	75 bush.	in England.
Iron	125 "	"	"	50 cwt.	in United States.
	150 "	"	"	50 cwt.	in England.

Both countries would gain by trade. p. 383.

50 cwt. sent by England would exchange for more than 75 bushels, since it would take only 100 days to produce the corn, while it would take 125 days to produce 50 cwt. Let us say for 84 bushels. It would take 112 days to produce 84 bushels in the United States ($84 \div \frac{75}{100}$), thus we save 13 days by buying our iron instead of producing it. It would have taken England 224 days to have produced the 84 bushels which she obtained with 150 days' labor in iron, thus saving 74 days. Whether England will get more or less than 84 bushels for 50 cwt. depends on the strength of the relative demands of the United States and England for each other's products. England's *comparative* advantage is in iron, while ours is in corn, although we have an absolute advantage in both. Each country will devote itself to the article of its comparative advantage, and will import the other.

Price is a measure of comparative cost. High prices show that gold is of less comparative value, and therefore cheaper to export (like England's iron in Case 3). With low prices, the case is reversed. p. 384.

Prices are determined by cost of production within the range of competition, out of that range (as in the case of foreign products) by reciprocal demand.

RULE FOR DETERMINING WHETHER TRADE WILL ARISE.

If the ratios are the same (as 2 to 10 in one country, and 1 to 5 in the other) no trade can happen; but if they differ (as 2 to 10 in one, and 1 to 8 or 1 to 2 in the other), trade will take place, and *all* the possible combinations must be tried until the right one is found.

Foreign trade enables nations to obtain articles which they could not produce, and also it causes the productive forces of the world to be more efficiently employed. If in case 3 the countries refused to trade, 87 days' labor would be thrown away. Although much labor and capital could be better employed in other countries, the true advantage of a country lies in producing for its own and foreign markets that article in which it lies under the *least* disadvantage, and importing everything else. p. 385.

International trade is only an extension of the principle of division of labor, and the gains are the same in both cases.

THE ONLY REAL ADVANTAGE OF TRADE LIES IN THE IMPORTS, NOT IN THE EXPORTS.

The idea that the advantage is in the exports is a relic of the "Mercantile Theory" which said that *money* was the only wealth; thus exchanging goods for money, or exporting, was the only way to prosper, while exchanging money for goods, or importing, was sure to impoverish a country. p. 386.

Really, a country produces an exportable article because it is the cheapest way to obtain other things; not because it is under the necessity of producing the export, because if there is no demand for it the product will be wasted, or if not produced, the corresponding capital will remain idle. If the exportation were prevented, production of it would cease, and imports would necessarily fall off to the same extent, as the country would have nothing to offer in exchange. The capital employed in producing the export would now be occupied in producing the articles formerly imported. As the cost of production would be greater (87 days lost in case 3) the value and price of the former imported articles would rise, and the loss would fall on the consumers of the articles. p. 388.

INDIRECT BENEFITS OF FOREIGN TRADE.

1. Large production of an article tends to improve the processes of manufacture.
2. Labor is stimulated to increased effort to obtain new commodities brought within reach by trade.
3. Civilization is advanced by contact with other peoples.
4. Good will is promoted between different nations, and war is prevented by the magnitude of commercial interests. p. 389.

CHAPTER XIV.

OF INTERNATIONAL VALUES.

The value in any country of a foreign commodity depends, not on its cost of production where it is made, but on the value of the home produce which must be given in exchange. p. 391.

If the United States imports wine from Spain, and gives a bale of cloth in exchange for every cask, the cost of the wine depends on the cost of production of the cloth in the United States, not on that of the wine in Spain. If the wine costs 10 days' labor, and the cloth 20 days, the cost of the wine in the United States will be 20 days plus the cost of carriage and

the importer's profit. If both articles are made in the same country, they will exchange in the ratios of their costs of production, but, as they are made in different countries, they are in noncompeting groups, and this law does not apply. See p. 27.

Exchange value is the quantity of one article that will be given for a certain quantity of another article. This is governed by supply and demand. p. 393.

A has spades, and B oats to dispose of. Whether A will give two spades for one bushels of oats, or whether B will give two bushels of oats for one spade depends on the intensity of A's demand for oats, or of B's for spades. If A's demand is slight and B's is strong, B will have to offer more oats to get a spade, and the exchange value of oats will be less. p. 394.

Demand and supply cannot carry the exchange value in either country beyond the limit set by their costs of production.

In case 3, p. 56. The most intense desire of England for corn cannot raise the value so that she will offer 200 days labor in iron for 75 bushels, as she could produce it just as cheaply herself.

The question, who pays the cost of carriage, depends, like the question, who gains the most, on demand and supply.

Cost of carriage is a kind of natural protection. There are many articles whose relative costs of production differ so little in different countries that the whole saving by importing is more than counterbalanced by the cost of carriage. p. 396.

THE OPERATION OF THE LAW OF RECIPROCAL DEMAND.

Broadcloth	10 days'	labor	produces	10 yds.	in England.
	20 "	"	"	10 yds.	in Germany.
Linen	10 "	"	"	15 yds.	in England.
	20 "	"	"	20 yds.	in Germany.

In England 10 yards of cloth exchange for 15 of linen.
In Germany 10 " " " " " 20 " "

It would be England's interest to import linen, and Germany's to import cloth.

After importation begins, 10 yards of cloth will exchange for the same number of yards of linen in both countries; if for 15 yards of linen, England will be as before and Germany will gain; if for 20 yards, England alone will gain; if for some number between, (as 17) both countries will gain.

The demand for an article varies with the price. p. 397.

Case 1. The relative demands are equally intense.

When 10 yards of cloth equal 17 of linen, there is a demand in Germany for a particular number of yards of cloth, say 1000 times 10 yards, and in England for a particular number, say 1000 times 17 yards. Thus the demand on each side just equals the supply.

Case 2. England's demand is less than Germany's.

Suppose England desires only 800 times 17 yards of linen, while Germany desires 1000 times 10 yards of cloth. Thus Germany could only get 800 times 10 yards at the price of 10 for 17. To get the extra 200, she would have to offer more linen, say 18 yards. At this price England would demand 900 times 18 yards, while the rise in value of cloth would decrease the demand of Germany to 900 times 10 yards. Then the demand would again equal the supply. p. 398.

Case 3. England's demand is greater than Germany's.

At 10 for 17, England desires 1200 times 17 yards of linen while Germany desires 1000 times 10 yards. England would offer more cloth, say 11 yards for 17 of linen. Then England's demand would fall off to 1100 times 17 yards, and Germany's increase to 1100 times 11 yards.

Demand will again equal the supply.

A country gets its imports cheaper, (*a*) the greater the foreign demand for its exports; (*b*) the smaller its own demand for foreign products. p. 399.

THE LAW OF THE EQUATION OF INTERNATIONAL DEMAND.

The produce of a country exchanges for the produce of other countries at such values as are required in order that the whole of her exports may exactly pay for the whole of her imports. p. 400.

This law is merely an extension of the law of supply and demand.

The cost of a country's imports consists of two variables.

1. The QUANTITY of her own products that she gives for the imports. p. 402.

This depends on the intensity of the foreign demand compared with her own demand for foreign products.

2. The COST in sacrifice and abstinence to her of the products given in exchange.

This depends on natural advantages and the efficiency of domestic labor.

Thus there are two senses in which a country can get articles cheaper by trade.

1. In the sense of exchange value. These imported articles fall in value relatively to others.

The same quantity of these articles exchanges for a smaller quantity of other articles. That is, the *price* falls, as less money is given for the same quantity.

2. In the sense of cost of production. The country gets the same quantity of the imported article with a less expenditure of labor and capital.

This depends on 2 above. In case 3, p. 56, England gets her corn cheaper by 74 days' labor through trade.

CHAPTER XV.

OF MONEY, CONSIDERED AS AN IMPORTED COMMODITY.

Money is usually an imported article, and is consequently governed by the law of international values. p. 404.

Money enters a country in two ways.

1. It is imported as bullion like other merchandise.

2. It is imported as a medium of exchange to pay debts due the country.

This last is peculiar to money and renders special exposition necessary.

When the precious metals are imported as articles of commerce, they conform to the same laws as other foreign products, and are usually a regular article of export from the mining countries. The quantity of produce which a country, as England, will give for a certain quantity of bullion depends on the intensity of her demand for bullion compared with the strength of the demand of the mining country for England's products. The total of England's imports, including bullion, must just balance her exports. The demand for money increases with the cheapness in a regular way. p. 406.

The cost of bullion depends,—

1. On the quantity of goods given in exchange.

2. The expense of transporting the goods over and the bullion back.

Both these depend on the distance from the mines, and the former is much influenced by the bulkiness of the goods. Both countries bear a part of the cost of carriage, the exact amount being determined by the adjustment of international values.

Prices are highest, *i. e.* bullion is cheapest, in countries whose exportable products are:

(1) Most in demand abroad.

(2) Which contain the greatest value in the smallest bulk.

(3) Which are nearest to the mines.

(4) Which have the least demand for foreign products.

(If we speak of "cheapness" in the sense, not of exchange value, but of cost in labor and abstinence (see p. 37) we must add 5, which does not, however, affect the value of money in commodities, but affects the facility with which all things can be obtained.)

(5) Whose productive industry is the most efficient. p. 407.

Therefore the value of money, in countries which import it, does not depend either on its value in the mining countries, or on the cost of production; but depends solely on the equation of international demand.

THINGS WHICH CHEAPEN THE IMPORTS OF A COUNTRY (*including bullion*).

1. The opening of a new branch of export.
2. An increase in the foreign demand for her exports, either naturally, or by the abrogation of duties.
3. A check to the demand for imported articles, either on account of import duties, or export duties laid by other countries.

Any of these would cause imports no longer to equal exports, and foreign countries would have to offer their products cheaper, in order to restore the balance by the consequent increased demand.

The whole of the exports of a country equal the whole of her imports, not the exports and imports to and from any one country.

Thus a country which exported nothing to mining regions might obtain its bullion cheapest, by obtaining it indirectly. p. 409.

CHAPTER XVI.

OF THE FOREIGN EXCHANGES.

The exports and imports are not exchanged directly, but are separately paid for by money, which, however, is seldom transported, as bills of exchange are used. When imports equal exports, all transactions can be settled by bills of exchange; but if there is a difference, money must be sent to balance. Money is not sent directly, but remittances are still made by bills of exchange. This is done through brokers who buy and sell the various bills. Now if there is a greater demand for foreign bills than for domestic, the brokers will charge a premium. p. 412.

A premium is an extra charge on bills of exchange sufficient to cover the freight and insurance on the coin, and also pay the broker a profit.

The brokers charge less than it would cost to send the money directly, and although only a few would really have to send coin, all would have to pay the premium on account of each other's competition.

The reverse happens when the exports of a country exceed her imports. There is an excess of foreign bills which are consequently at a discount. The competition among brokers causes the benefit of this to be given to those who buy foreign bills.

"The Exchange" means the power which the money of a country has of purchasing the money of other countries.

Exchange is at par when exports equal imports.

The same number of bills of each kind would be offered in both countries, and hence would just balance. p. 413.

Exchange is against a country when imports exceed exports. Bills on foreign countries are then at a premium.

If the United States had a larger sum to pay to England than to receive, there would be more persons wanting bills payable in England, than there were persons wishing to sell English bills. A bill on England for $1,000 would sell for more than $1,000. Thus $1,000 of American money are worth less than their real value of English money. Those who have to pay money in England lose the premium, and those who have money to receive there gain the premium by selling their bills here.

Exchange is favorable to a country when exports exceed imports. Bills on foreign countries are at a discount.

If a balance is due the United States from England, $1,000 of English money will sell for less than $1,000 of American money. This is exactly the reverse of the above.

When the United States has more to pay than to receive, England has more to receive than to pay, therefore when bills on England are at a premium here, bills on the United States are at a discount in England.

The shipping point is reached when the premium or discount exceeds the cost of sending coin.

In this case it will be cheaper for a man actually to send gold than to pay the premium or discount.

The premium seldom reaches the shipping point, as the credit generally given allows payment to be deferred until the balance is restored by the self adjustment of exchange. Bills are at a premium because the imports exceed the exports. The premium is an extra gain to the exporter, as he can sell the English bill of $1,000 sent him for say $1010. Thus he will be encouraged to export. The Englishman will be less inclined to export as a bill of $1,000 due here will be worth only $990 to him. Thus all small variations are corrected. It is evident that if the increased exports equal the diminished imports there can be no premium or discount. p. 416.

Disturbances of the equilibrium of imports and exports are of two classes.

1. Small accidental disturbances which correct themselves as above without shipping bullion.

2. Disturbances arising from the state of prices, which cannot be corrected except by a subtraction of money or credit from the circulation of one country.

ARBITRATION OF EXCHANGE.

Since only *total* exports equal total imports, the United States may owe a balance to England and have a balance due from Holland. There will then be no premium, as the United States will pay its debts to England with the bills due her from Holland.

CHAPTER XVII.

OF THE DISTRIBUTION OF THE PRECIOUS METALS THROUGH THE COMMERCIAL WORLD.

The trade between nations tends to the same equilibrium between exports and imports whether money and bills are used or not, and the same means are used in both cases to restore the balance. p. 420.

If the United States imports more than it exports, a balance will be due to some other country, say England. Under a barter system the exports must be offered cheaper, so that by means of the increased demand the exports may equal the imports. When money is used, the United States takes the imports at the same price as before, and pays the balance in money. This payment in money will evidently have to be kept up until the exports are increased, or the imports reduced. This can be done only through prices.

When the state of prices in the two countries is such that the United States requires more imports than it can pay for by its exports, it is a sign that the United States has an excess of coin in circulation. The balance can be restored only by contracting the currency.

By the continued shipments of coin the currency in the United States is diminished and that of England increased. As prices depend directly on the quantity of money, they will fall in the United States, and the

increased cheapness will cause England to import more. Owing to the rise of prices in England consequent on the enlarged currency, less will be imported into the United States. The outflow of coin to England will continue until, by diminishing the total imports and increasing the exports, the balance is restored. Thus under a money system, by means of a fall in prices, the United States offers her exports at a cheaper rate.

WHO GAINS THE BENEFIT OF AN IMPROVEMENT IN THE PRODUCTION OF AN EXPORTABLE ARTICLE?

Such improvements are either (*a*) the creation of a new export, or (*b*) the cheapening of an old export. p. 422.

a. (1) The price of the new export falls in the United States. A demand consequently arises for it in England, This disturbs the balance of trade, and the exports of the United States exceed her imports, the balance is paid in money, and (2) prices rise in the United States. (3) These higher prices will lessen England's demand for all the exports of the United States, while, owing to the shipments of coin, the United States will have more money with which to buy foreign articles. If this increased purchasing power is used, there will be an increase of imports. The balance will be restored anyway, either by increasing imports, or by diminishing exports.

Results of (*a*). 1. England will have to pay more for all other exports, but will get the new one cheaper. p. 424.

The United States will get the new export cheaper than England, although the price is the same in both countries. Cheapness is measured not by money price, but by the price as compared with the income of the consumers. The incomes in the United States have been increased by the coin sent by England, where the incomes have been diminished in the same proportion. Thus England only gets part of the benefit from the cheapening of the new export.

2. The United States gains the full benefit of the cheapening of the new export, and gets all imports cheaper owing to the fall of prices in England.

b. An old export, say cotton cloth, is cheapened. Its price falls and the foreign demand increases. (1) If the foreigners spend as much money as before on cloth, the balance of trade will be undisturbed.

Result of *b* (1). Foreigners will gain the full advantage of the improvement, as they will get more cloth for the same money.

b (2). If the increased cheapness causes more money than before to be spent on cloth, the excess will have to be paid in money, prices in the United States will rise.

Result of *b* (2). Both gain, but the United States will also gain by having her incomes raised, and will thus gain more than England by the improvement, as England's incomes are reduced. p. 425.

b (3). If, while the same amount of cloth is bought, less money is paid for it, the balance will be against the United States which will export money; prices will fall.

Result of *b* (3). The opposite of *b*. 2.

The use of money as a medium of exchange never alters the laws on which the values of other things depend, nor does it alter the law of its own value as merchandise.

RESULTS OF NON-COMMERCIAL PAYMENTS LIKE TRIBUTE OR INTEREST ON SECURITIES. p. 427.

When the remittances are made in commodities, no return is expected for these exports. Exports must exceed imports by the amount of the remittance. If trade was in equilibrium before these remittances began, imports must be lessened, or an increased demand must be created for its exports by offering them cheaper.

Result. The debtor country besides losing what it pays, loses also by the less advantageous terms on which it exchanges its own for foreign articles, while the creditor gains in both ways.

The use of money makes no difference. As trade is in equilibrium, the first remittance must be made in money. Prices are lowered in the debtor country, and raised in the creditor one. Exportation from the debtor country is stimulated and importation is checked. Thus on the score of trade a balance is due from the creditor to the debtor. When this balance equals the payment, equilibrium will be restored, and the above results will follow.

THE LAW OF THE EQUATION OF INTERNATIONAL DEMAND.

Equilibrium is reached when a country is able by means of her exports to discharge all her foreign liabilities. p. 429.

CHAPTER XVIII.

THE INFLUENCE OF THE CURRENCY ON THE EXCHANGES AND ON FOREIGN TRADE.

The exchange value of gold and silver may vary owing to changes in their cost of production, or on account of variation in the demand for

them in the arts. Their value may increase owing to greater business transactions which cause a demand for more coin, or may diminish owing to the substitution of credit for coin. · p. 431.

THE EFFECTS ON TRADE OF TEMPORARY VARIATIONS IN THE VALUE OF MONEY.

If the coin currency of a country is suddenly increased, as by the discovery of concealed treasures, its value will fall and prices will rise. Then the exports will be diminished, and the imports stimulated. The consequent excess of imports will be paid for in coin, and the flow will continue from one country to another until the prices have risen equally in all countries. Thus all imports will equal exports although all will have an increased money price. The lessened value of bullion will diminish production at the mines, and this will continue until an amount equal to the treasure has been destroyed by wear. p. 432.

The same results would follow if bank notes were added to the currency.

Prices would rise, imports would exceed exports, and the surplus coin would be sent abroad. This would continue until prices were equally raised everywhere.

Besides this, the coin is replaced by a cheaper money, and the difference is a clear gain to the issuers of the notes; if the gain is used productively, the country is as much benefited by this, as by any other capital.

For this reason paper should always be substituted for coin, as far as is possible without endangering its convertibility. p. 434.

When the paper exceeds in quantity the coin it replaces, prices will rise; an article formerly worth $25 in coin will be worth $30 in paper. But this does not stimulate importation, as the foreigners reckon on a coin basis as before. p. 436.

Thus a depreciation of the currency does not affect the foreign trade.

The exchanges, however, are affected. $30 of United States paper is worth only $25 in England, so that a bill on England for $25 costs $30 in paper. When the real exchange is at par, there will be a nominal exchange against the paper country equal to the depreciation. When the exchanges are really against a country, the quoted exchanges are composed of (1) the real exchange, which depends on international trade; added to (2) the nominal exchange caused by depreciation. The amount of depreciation is measured by the difference between the market price of bullion and the mint price.

The use of credit raises prices just like an increase of the currency. Imports are stimulated by the rise, and the shipments of gold to pay the balance contract the coin currency. Prices of course fall, and a panic follows which causes a commercial crisis. p. 439.

CHAPTER XIX.

OF THE RATE OF INTEREST.

The gross profit of capital is divided into,

1. Remuneration for risk, called insurance.
2. Wages of Superintendence.
3. Interest. See Book II, Chap. V. p. 28.

The rate of interest depends on demand and supply. What is usually called interest is composed of insurance plus the real interest. p. 440.

The demand for loans consists of the amount desired by those producers who can use borrowed capital profitably, plus the amount required for government loans. The supply consists of the capital of those who do not care to enter into production themselves, plus the sums collected by the banks.

I. If this capital exceeds the desire for loans, lenders will offer it at a lower rate of interest. In this case either the borrowers will take more capital, and supply will again equal demand, or the lenders will take greater risks, and much of the excess of capital will be lost by unsuccessful enterprises, while the low rate of interest will discourage the further increase of capital. p. 442.

II. If this capital is less than the borrowers' demand, the rate of interest will rise, the demand will be checked, and many borrowers will retire from business and lend their own capital. The high rate will stimulate the accumulation of capital.

When capital is supplied by professional money lenders, they must have compensation for risk; interest; and a further profit corresponding to wages of superintendence. The money lender lends his credit —the borrowed capital of others—for which he pays insurance and interest. A bank which lends its notes pays no interest on its borrowed capital. A bank of deposit collects small sums and pays no interest. Thus banks, paying no interest themselves, can get the ordinary rate of profit on their capital by lending at lower rates. p. 444.

While the relation between total loanable capital and the demands of producers fixes the *permanent* rate of interest, the *fluctuations* depend on the supply in the hands of banks which, being lent for short times, is always in the market. The capital of non-producers is usually in some fixed investment like government bonds.

In the beginning of speculation, money-lenders are more willing to lend, and interest is low. At the collapse of speculation, interest is high because, while many desire to borrow to keep themselves from failing, the money-lenders are afraid to lend. When a series of failures has created a general distrust, nobody will give credit, and a panic follows. Deposits are withdrawn from banks, and bankers raise their rates. When large

government loans are offered, the rate of interest rises, and the amount thus used is taken away from production. Other tempting investments, such as railways, tend to raise interest in the same way. p. 446.

The rate of interest depends, not on the quantity of money in circulation, but on the relation between the amount of loanable capital and the demand for it.

An increase of the currency by paper issues has no effect on the rate of interest.

The price of land and other investments which give a fixed income depends on the rate of interest. When interest is low, prices are high, and vice versa. p. 449.

A lot of land giving a rent of $100 would sell for $1000 if the rate of interest was 10 per cent. If afterward the rate decreased to 5 per cent, the land would sell for $2000, since $100 is 5 per cent of $2000.

CHAPTER XX.

OF THE COMPETITION OF DIFFERENT COUNTRIES IN THE SAME MARKET.

The benefit of trade lies in the imports, and a country gains most when it can sell a few exports at a high price, and thus pay for its imports. Thus there is no benefit in "underselling," that is, selling exported articles at a lower price than another country can sell the same articles.

One country (India) can only undersell another (the United States) in a given market, to the extent of expelling her, on two conditions;

1. India must have a greater comparative advantage in producing the given article.

2. India's trade relations to the customer country must be such, in regard to reciprocal demand, that India gives her more than the whole advantage possessed by the United States. p. 451.

Iron	10 days'	labor	produces	10 cwt.	in England.
	10 "	"	"	10 cwt.	in United States.
Corn	10 "	"	"	15 bush.	in England.
	10 "	"	"	20 bush.	in United States.

England will send over 10 cwt. and, owing to the strength of international demand, will get say 17 bushels in return. Now the United States cannot be expelled from the English market by being undersold unless some other country offers England not only more than 17 bushels, but more than 20 bushels for 10 cwt., for instance, p. 451.

Iron	10 days' labor	produces	10 cwt.	in India.
Corn	10 " "	"	25 bush.	in India.

India in this case could afford to give 21 bushels for 10 cwt.

To undersell the United States, India must be able (1) to produce wheat at a less cost compared with iron, and besides (2) must have such a demand for English iron as to force her to give more than 20 bushels, even when the United States is driven out. If India's demand for iron were such as only to cause her to give 19 bushels for 10 cwt., the United States could still compete with India. In any case England would gain, as she would get more wheat for the same quantity of iron.

Thus when India can sell corn cheaper than the United States (19 bushels for 10 cwt. instead of 17 bushels) there is no danger of losing the market, but only of a less advantageous trade. Even if the United States is undersold, (21 bushels for 10 cwt.) the corn will not be exported, exports will be diminished, gold will be sent abroad, prices will fall, and, as the expenses of the American producers are lessened, they will be able again to compete with their rivals.

The loss by the fall of prices will fall, not on the exporters, but on the consumers of imports, who with less incomes will have to pay the same, or higher prices. p. 452.

Underselling, although a loss to the undersold countries, is a gain to the world, as less labor is expended in producing the article owing to some advantage possessed by the underseller. These advantages may be from better soil, better machinery, or more efficient labor. There is no place in this theory for advantages of lower wages, which do not affect cost of production.

The cost of labor is nearly the same everywhere; when a laborer receives less wages, he is found to do less work. p. 457.

Thus Belgium cannot undersell England, although her workmen are paid less. In America, the cost of labor is so low that it gives both higher wages and profits. See p. 37.

DOMESTIC MANUFACTURES.

These are industries which are carried on in the intervals of other employments by which the laborers are supported. Consequently, these domestic industries can be carried on with a much lower return than could possibly support a laborer who produced these articles exclusively. p. 460.

The limit of cheapness in this case is not the necessity of living by the trade, but that of earning enough by the work to pay for this use of leisure time.

General low wages do not cause low prices in a country, nor do they enable her to undersell others. High wages do not make high prices. See Book II, Chap. II, p. 21.

Expenses which affect all industries alike have no effect on prices. If higher wages are paid in one industry, the price will rise, because otherwise the profits would fall below the average, and capital would leave the business. But if everybody has to pay higher wages, all profits are lessened alike, and prices are unaffected.

General low wages do not make low prices, but do make high profits. p. 461.

If wages fell in one industry, the consequent greater profits would attract more capital, and the price would fall by the competition. If profits increase in all industries by a fall in wages, everything will remain unchanged.

If wages rise, profits fall.

If profits rise, wages fall.

Countries which have a low cost of labor and high profits do not for that reason undersell others, but they offer greater resistance to being undersold, as the producer can more easily submit to a reduction of profits. p. 462.

Price in United States $60; profit, $15; cost of labor $45.
" " England 55; " 5; " " " 50.

As the cost of labor is lower in the United States ($45), she could undersell England ($50) if she had the same rate of profit (10 per cent) but she has higher profits (33 1-3 per cent) and so prices are higher.

When profits were high, Venice had a monopoly of the carrying trade; as they fell, other countries with lower profits drove her out; and Holland, having the lowest rates of profit at home, finally drove all the others out, as she could afford to do it more cheaply. p. 463.

CHAPTER XXI.

OF DISTRIBUTION, AS AFFECTED BY EXCHANGE.

The products of industry are divided into three shares,—wages, profits, and rents—and the use of exchange makes no difference. p. 465.

REAL WAGES are the commodities a laborer receives in return for his sacrifice.

This is the only sense in which they are of importance to the laborer. They include food, clothing, shelter, etc. p. 466.

MONEY WAGES are the quantity of money that he receives for his labor.

In this sense only, wages are of importance to the employer. If the value of money and the efficiency of labor do not change, the money price is an exact measure of the cost of labor.

Money wages are composed of,

1. Real wages.
2. The money price of the articles contained in the real wages.

WAGES.

Wages depend on the ratio between population and capital. See p.

In countries where the positive and preventive checks act, the money price of labor is just great enough to enable the laborers to purchase the real wages necessary to cause the laborers to keep up the population. If money wages fall, population decreases, and wages rise. Thus money wages depend on the money price, and therefore on the cost of production of the articles contained in the real wages.*

As the price of food depends on the productiveness of the poorest land in cultivation, so money wages depend on cost of production.

RENT.

As the margin of cultivation is determined only by the population, the ensuing rent cannot be affected by exchange. See p. 40.

PROFITS.

Since wages and rent are unaffected by exchange, profits are also unaffected, for the surplus, after paying wages and rent, is profits. p. 469.

TWO WAYS IN WHICH THE COST OF LABOR MAY BE INCREASED.

1. Real wages may rise, and consequently raise money wages.

(If real wages rise by the fall in price of commodities, money wages will be unchanged, and profits will be unaffected.) If commodities are no cheaper, and the laborer gets more of them (owing to some change in the ratio of capital to population) the increase comes out of the profits of the capitalist. He cannot remedy this by raising his prices, for general high wages cannot affect prices.

If a rise in wages caused a rise in prices, there would be no real rise, as the laborer would get no more real wages with his increased money wages. p. 470.

A rise of general wages must fall on profits.

* For cost of production see p. 37.

2. Money wages may rise from an increase in cost of production caused by increased population.

The extra quantity of food demanded would not be produced unless the price rose to compensate for the increased cost of production on account of "Diminishing Returns." The laborers' real wages being unchanged, his money wages must have risen to enable him to pay the increased prices.

An increase of general wages lowers profits, and a decrease increases profits.

But there is no real opposition of interest. Real wages are *not* cost of labor, and are highest when, owing to natural advantages or efficiency of labor, cost of labor to the employer is lowest. p. 471.

The rate of profit and the cost of labor vary inversely as one another, and are joint effects of the same causes.

APPENDIX.

PAPERS SET FOR EXAMINATION IN POLITICAL ECONOMY I.

1883-1884.

1. Explain carefully the following terms: production, consumption, effectual demand, margin of cultivation, cost of production, value of money, cost of labor, wealth, and abstinence.

2. What conclusion as to the limit to the increase of production does Mr. Mill deduce from his investigation of the laws of the various requisites of production?

3. Explain clearly how it is possible for the land of a country which is all of a uniform fertility to pay rent.

4. Point out distinctly the connection between the money wages of laborers in the United States and the productiveness of the soil.

5. Explain the operation of the laws of value by which the relative prices of wool and mutton would be regulated.

6. Why is it necessary to make any different statement of the laws of value for foreign than for domestic products? What is the cause for the existence of any international trade?

7. (1) What is the true theory of one country underselling another in a foreign market? (2) What weight should be attributed to the fact of generally higher or lower wages in one of the competing countries?

8. If capital continued to increase and population did not, explain the proposition that "the whole savings of each year would be exactly so much subtracted from the profits of the next and of every following year."

9. Give the arguments for and against the income tax. Would the tax on any kinds of income not fall upon the persons from whom it was levied? Explain.

10. Define the term banking-reserve. What is the theory on which only a small part of the total resources is constantly kept as a reserve? What relation exists between the items of deposits, loans, and reserve?

11. Explain the provisions of the Resumption Act, and show how the actual results were produced.

12. Was the issue of greenbacks in February, 1862, an actual necessity?

1885-1886.

1. Explain what is meant by the "standard of living" of the laboring class. In a densely populated country would the standard of living have any influence on the general rate of wages?

2. Show clearly why there must be land in cultivation which pays no rent.

3. Explain carefully the relation between Cost of Labor and Real Wages. How can an increase of population affect Cost of Labor?

4. Under what conditions can it be said that normal value depends on the "expenses of production"? State the law of market and normal value for commodities affected by the law of diminishing returns.

5. Explain the reason for the existence of foreign trade. Is there any different reason for the exchange of goods in domestic trade?

6. What is inconvertible paper money? From the history of the United States notes state the main events showing the attitude of Congress towards their issue, while the notes were inconvertible.

7. Why is a bank obliged to limit its loans when its cash reserve is seriously impaired?

8. Why is it that the products of extractive industries are liable to great variations of market value?

9. Upon whom would a tax on Rent fall? Would such a tax be a discriminating tax on the agricultural interests?

10. What are the advantages of direct taxation? State by what kinds of taxation, direct or indirect, the United States gets its revenue.

11. Is it correct to say that high wages alone prevent us from selling manufactured goods in foreign markets!

1886-1887.

1. Compare the economic effects of defraying war expenditures by loans and by taxation.

2. Does the rent of a factory building affect the value of the goods made in it? Does the rent of a farm affect the value of the grain grown on it? Does the rent paid for a lot near a great city, from which gravel is taken, affect the value of the gravel?

3. It has been said that "the laws and conditions of the production of wealth partake of the character of physical truths. There is nothing optional or arbitrary in them." State briefly the laws of the production of wealth here referred to, and whether the statement in regard to them is true.

4. It has been said that the law of population and the law of diminishing returns from land point inevitably to misery and want as the destiny of the mass of mankind. What influences affecting the operation of these laws are to be taken into account; and if they are taken into account, are the laws of population and diminishing returns from land thereby shown to be invalid?

5. Explain briefly the nature of the remuneration received by the following persons: a farmer tilling his own land; a merchant carrying on business with his own capital; a manufacturer carrying on business with borrowed capital; a holder of railway stocks; a holder of government bonds; a patentee.

6. Wherein is the value of metallic money governed by different principles from those that regulate the value of commodities in general? And wherein is the value of inconvertible paper money governed by different principles from those that regulate the value of coin?

7. Credit is said to be purchasing power. Explain what is meant by this proposition, and in what manner it bears on the theory of the value of money. Point out in what form credit, as purchasing power, is most likely to affect prices in the United States and in France.

8. (*a*) Suppose that:

In the U. S. one day's labor produces 2 bushels of corn;
" " " " " " 10 yards of cotton cloth;
" England " " " " 1 bushel of corn;
" " " " " " 5 yards of cotton cloth.

Would trade arise between England and the United States? If so, how?

(*b*) Suppose that in England one day's labor produced 8 yards of cotton cloth, other conditions remaining the same as in (*a*). Would trade arise? If so, how?

(*c*) Suppose that in England one day's labor produced 2 yards of cotton cloth, other conditions remaining the same as in (*a*). Would trade arise? If so, how?

9. Suppose a new article to appear among the exports of a given country. Trace the effects in that country on the course of the foreign exchanges; on the flow of specie; on the value of money; on the terms of international exchange. Would the results be the same if, instead of a new article of export, some article previously exported were to be sold abroad in larger quantity because of a lowering of its cost and price?

10. (*a*) Arrange in proper order the following items of a bank account: Loans, $538,000; Bonds and Stocks, $40,000; Capital, $200,000; Real Estate, $26,000; other assets, $26,000; Surplus, $65,100; Deposits $440,000; Notes, $101,550; Cash, 124,000; Cash Items, $52,650.

(*b*) Suppose the bank to discount four months paper (at 6 per cent) to the amount of $10,000 of which it purchases one-half by promises to pay the bearer on demand, and one-half by cash. How would the account then stand?

(*c*) Suppose a borrower to have repaid a loan of $2000 by giving $1000 in cash, and $1000 in a cheque on the bank. How would the account then stand?

(*d*) Suppose the bank to be confronted, in a time of general embarassment, with demands from depositors for cash, and from borrowers for discounts. What policy would be adopted if it were the Bank of England? if it were a United States national bank?

1886-1887.

DIVISION A.

1. If taxes levied on the rich cause a diminution in their unproductive expenditure, would that in any way affect the employment offered for labor? Discuss fully.

2. What principle does Mr. Mill furnish by which the respective shares of labor and capital are determined? Has his Wages-Fund Theory any connection with his exposition of the dependence of "profits" on Cost of Labor?

3. In discussing the distribution of the product, why is it that the relative shares of labor and capital can be discussed independently of rent? Would an increase of rent affect the share of labor or of capital?

4. Why is it that city banks make a greater use of the deposit liability than of the note liability? Why is the fact just the reverse with country banks?

5. State fully the difference between Cost of Labor and Cost of Production. Would a decrease in Cost of Production affect Cost of Labor in any way?

6. If the returns, and consequently wages, in our extractive industries were to decline, how would the course of our foreign trade probably be affected?

7. Explain carefully how, and under what conditions, Reciprocal Demand regulates Normal Value.

8. How do you reconcile the doctrine of comparative cost in international trade with the fact that a merchant regulates his conduct by a comparison of prices at home with prices abroad?

9. Explain how a tax on "profits" may fall either (1) on the laborer, or (2) on the landlord.

10. Discuss the argument that protection raises wages.

11. Is the customs-duties on sugar economically justified?

DIVISION B.

1. Suppose the price of silver to rise to such a point that the ratio of silver to gold would be 15 to 1, what change would take place in the money at present in use in the United States?

Is such a change probable? if so, why? if not, why not?

2. State the essential differences between the coinage acts of 1792, 1834, and 1878.

3. "All experience has shown that there are periods when, under any system of paper money, however carefully guarded, it is impracticable to maintain actual coin redemption. Usually contracts will be based on current paper money, and it is just that, during a sudden panic or an unreasonable demand for coin, the creditor should not be allowed to demand payment in other than the currency in which the debt was contracted. To meet this contingency, it would seem to be right to maintain the legal tender quality of United States notes. If they are not at par with coin, it is the fault of the Government and not of the debtor, or rather it is the result of an unforeseen stringency not contemplated by the contracting parties." From the Report of the Treasury, dated December, 1887.

Under what circumstances was this passage written? Is the recommendation made by it a wise one? Has it been acted on?

4. Ten men club together to buy flour at wholesale, each taking a part and paying his share of the price. Ten others club together, borrow money jointly, and lend it out to themselves for aid in carrying on their trades. A third ten club together, set up a work shop on joint account and work in it, and periodically divide the net proceeds.

What kinds of coöperation are typified, respectively, by these proceedings? In what countries has each kind been most widely applied? Which seems to you to be of greatest intrinsic interest for the social question?

5. What is meant by the eight-hour law? Wherein does it resemble, and wherein differ from, factory legislation in England?

6. Compare the regulations of the Knights of Labor in regard to strikes with those of an English Trades-Union.

7. "The present doctrine is that the workman's interests are linked to those of other workmen, and the employer's interests to those of other employers. Eventually it will be seen that industrial divisions should be perpendicular, not horizontal." Explain what is meant by this passage; state by what devices it is endeavored to promote the "horizontal" and the "perpendicular" divisions, respectively; and give an opinion as to which line of division is likely to endure.

8. The declaration of principles of Knights of Labor demands "the enactment of laws providing for arbitration between employers and employed, and to enforce the decision of the arbitrators." Is it desirable to comply with that demand in whole, in part, or not at all?

9. Suppose a tax were levied of ten per cent on the house-rent paid by every person, those who occupied their own houses being assessed for the letting value of their dwellings. Would such a tax be direct or indirect? Would it conform to the principle of equality of taxation? Give your reasons.

1887-1888.

1. Is productive consumption necessarily consumption of capital? Can there be unproductive consumption of capital?

2. Distinguish which of the following commodities are capital, and, as to those that are capital, distinguish which you would call fixed capital and which circulating

A ton of pig iron; a plough; a package of tobacco; a loaf of bread; a dwelling-house.

Can you reconcile the statement that one or other of these commodities is or is not capital with the proposition that the intention of the owner determines whether an article shall or shall not be capital?

3. Suppose an inconvertible paper money to be issued, of half the amount of specie previously in circulation. Trace the effects (1) in a country carrying on trade with other countries, (2) in a country shut off from trade with other countries.

4. Explain in what manner the proposition that the value of commodities is governed by their cost of production applies to wheat, to iron nails, and to gold bullion.

5. Explain the proposition that rent does not enter into the cost of production. Does it hold good of the rent paid for a factory building? of the rent paid for agricultural land?

6. It has been said that wages depend (*a*) on the price of food, (*b*) on the standard of living of the laborers, (c) on the ratio between capital and population. Are these propositions consistent with each other? Are they sound?

7. Suppose that

One day's labor in the United States	produces	10	pounds	of	copper,
" " England	"	8	"	"	"
" " United States	"	5	"	"	tin,
" " England	"	5	"	"	"

Would trade arise between England and the United States, and if so, how?

Suppose that, other things remaining as above, one day's labor in England produced 12 pounds of copper, would trade arise, and if so, how?

8. Explain what is meant when it is said that "there are two senses in which a country obtains commodities more cheaply by foreign trade: in the sense of value, and in the sense of cost."

9. Arrange in proper order the following items of a bank account: Capital, $300,00; Bonds and Stocks, $35,000; Real estate and fixtures, $20,000; Other assets, $20,000; Surplus, $80,000; Undivided Profits, $10,500; Notes, $90,000; Cash, $110,000; Cash items, $90,000; Deposits, $850,000; Loans, $1,050,000; Expenses, $5,500.

Suppose loans are repaid to this bank to the amount of $100,000, one half by cancelling deposits, one quarter in its own notes, and one quarter in cash; how will the account then stand?

10. What is the effect of the use of credit on the value of money? Wherein does credit in the form of bank deposits exercise an effect on the value of money different from that of credit in the form of bank notes?

Mid-year. 1888.

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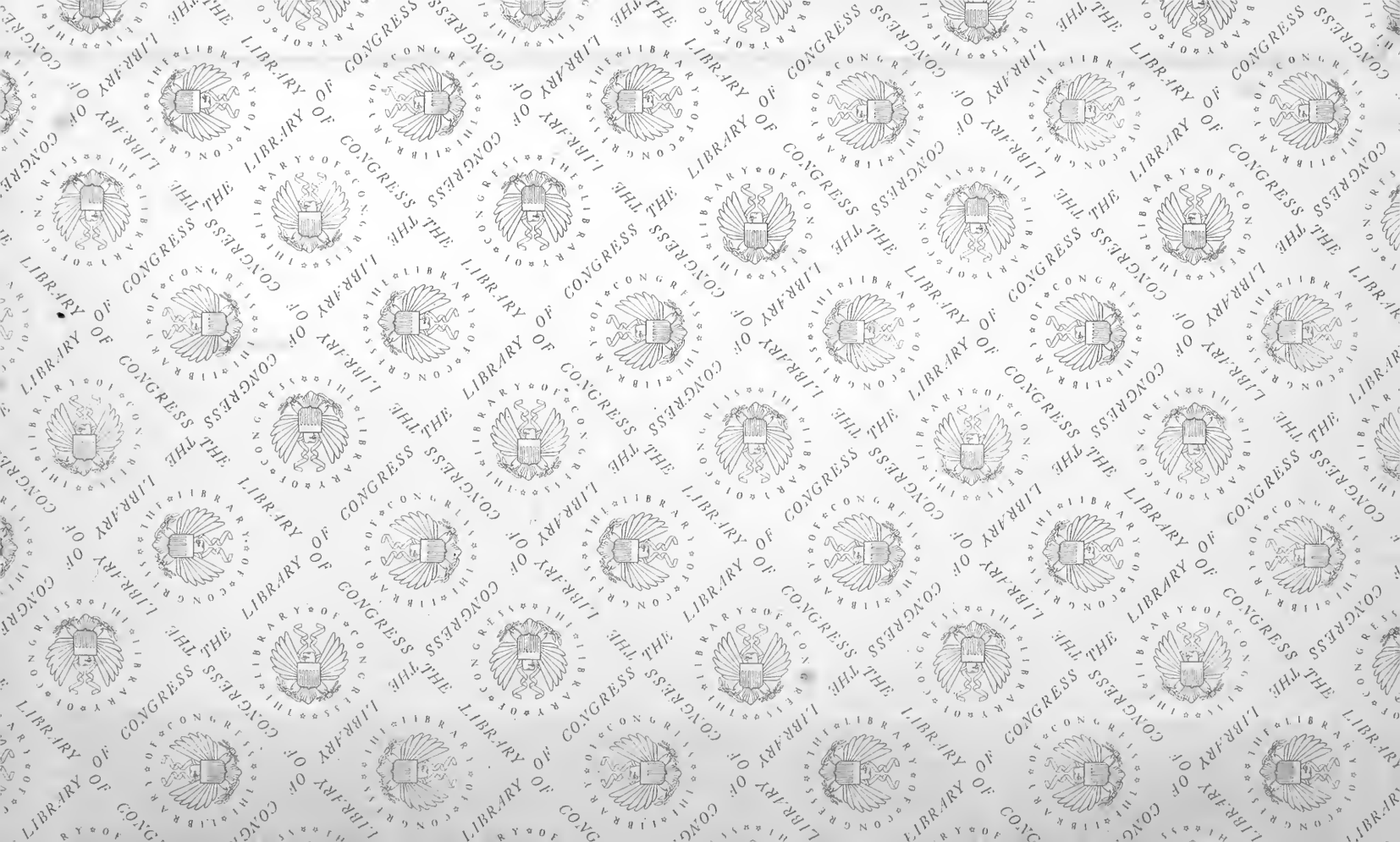
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